



MORLEY COLLEGE LIMITED

**Report and Financial Statements
for the year ended 31 July 2019**

Registered number: 2829836

Registered charity number: 1023523

Key Management Personnel, Board of Governors and Professional advisors

Key management personnel

Key management personnel are defined as members of the College Senior Management Team (SMT) and were represented by the following in 2018/19:

Dr Andrew Gower - Principal and CEO; Accounting Officer

Marco Macchitella - Deputy Principal

Nicholas Rampley - Vice Principal

Kevin Jones – Director of Finance

Governing Body

The full list of Governors is provided on pages 26 to 28 of this report. Martin McNeill acted as Clerk to the Governing Body and Company Secretary throughout the period.

General information and professional advisors

Registered Office

61 Westminster Bridge Road

London SE1 7HT

Financial statements auditors and reporting accountants

RSM UK Audit LLP

25 Farringdon Street

London EC4A 4AB

Internal auditors

Wylie & Bisset LLP

168 Bath Street

Glasgow G2 4TP

Bankers

National Westminster Bank plc

91 Westminster Bridge Road

London SE1 7HW

Solicitors

Eversheds Sutherland

1 Wood Street

London EC2V 7WS

Bates Wells & Braithwaite LLP

10 Queen Street Place

London EC4R 1BE

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Morley College London - Introduction

Morley College London (Morley) was established in 1889, and is one of the UK's largest providers of adult education. As a Specialist Designated Institution (SDI) Morley delivers an extensive range of adult learning in a highly responsive, accessible and flexible way.

Morley operates a distributed network of learning centres, with a main centre at Westminster Bridge Road and two satellite community centres in Stockwell and Rotherhithe.

Morley draws students from all 33 boroughs of London, with the largest number of students (45%) drawn from the most local communities in Lambeth and Southwark. Morley staff are highly experienced in meeting the learning needs of a culturally diverse learning community, with 120 languages spoken by students within the college community. In addition, Morley places a high priority on student information, advice and guidance, with tailored learning support for the 12% of Morley students with declared disabilities or learning difficulties.

Morley defines its areas of curricular specialism as 'Arts, Culture and Applied Sciences'. Learning opportunities are available at each level, from informal taster courses all the way through to Higher Education, with flexible pathways of study designed within the curriculum to encourage student progression.

Morley College has been working with the Further Education Commissioner's Office, the Education and Skills Funding Agency and Greater London Authority to put forward a proposal for Kensington and Chelsea College (KCC) to merge into Morley College through a business combination under the Statement of Recommended Practice: Accounting for Further and Higher Education. The Governors of the two colleges have supported significant progress with the merger proposal and the Department for Education has approved a funding package to facilitate the project. Since 31 July 2019, there has been further work on due diligence and a public consultation by KCC. The proposed merger date is 3 February 2020, when KCC would dissolve and transfer its assets and liabilities, with the combined college continuing to be known as Morley College London.

Morley Forward and Fundraising

We have now embarked on our most significant programme of renewal and redevelopment since being founded in 1889. Launched in September 2019 with the enthusiastic support of campaign patron Joanna Lumley, Morley Forward is a carefully phased ten-year programme of major capital works to upgrade and renew our historic college as a fully accessible and contemporary world-class centre for adult learning.

With a total budget of £18M, the works have been divided into four key phases, to ensure that the College remains fully operational throughout the development process. Phase one, fully funded at £3.3M, is currently nearing completion and will create a step-free main entrance to the college for the first time. It has already delivered a spacious new entrance foyer together with industry standard studios for Morley Radio, the first radio station for any adult education college in the UK. This phase also includes a new glass stack of teaching spaces and major improvement works to the College art gallery.

We are now actively fundraising for the second project phase. This critical £6M next stage of development will transform the performing arts facilities that lie at the heart of Morley and

ensure our rich performing arts heritage is both secure and sustainable for future generations of adult learners. The project will provide direct and level access to Morley's performance spaces for the first time with the construction of a new main access route, the Spine Gallery. It will also deliver a complete refurbishment of the Emma Cons Hall, with a new floor, retractable seating, new flexible staging, lighting rig and AV and sound equipment. As well as providing direct benefits to all College users, it will also enable us to reach out more to local communities and work in greater collaboration with many more external partners. It will also enable the College to participate in more London wide festival events, attracting new audiences and more private hire of our facilities, securing new income streams for the College.

Two further phases will complete the Morley Forward vision. Phase three delivers a new and much larger Learning Resource Centre for the College and repurposes the existing library into a further flexible performance and large lecture space. Phase 4 will deliver a bold new cross-borough link bridge to join our main teaching buildings with step free access for the first time and repurpose the large outdoor inner courtyard into a new recreational space for students, which will also be used for college events in the summer months.

Our project represents a significant and ground-breaking investment in the standard of performing arts facilities provided by a specialist college for adult education, securing a quality of performance facilities in Lambeth and Southwark which adult learners and local community groups rarely have access to.

Please visit <https://www.morleycollege.ac.uk/morley-forward> for the latest campaign details.

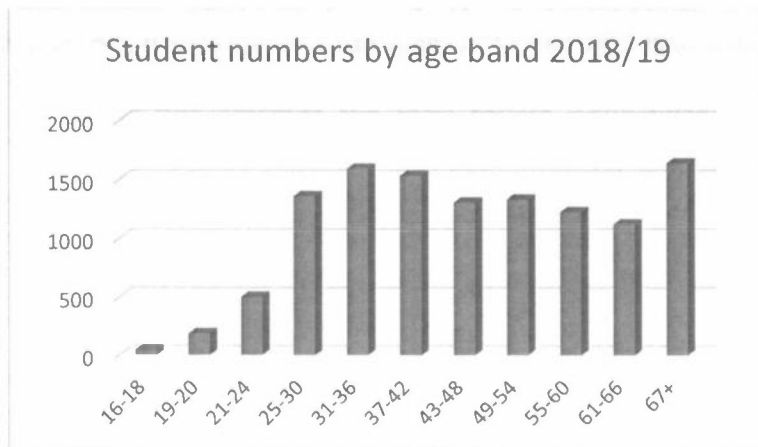
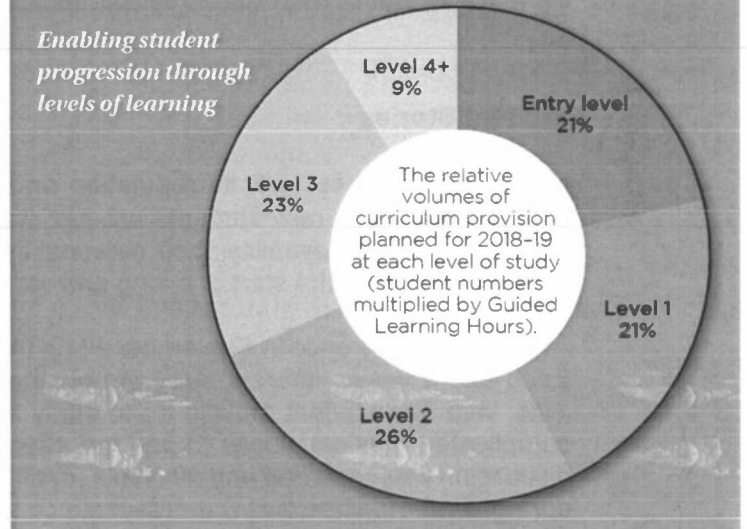
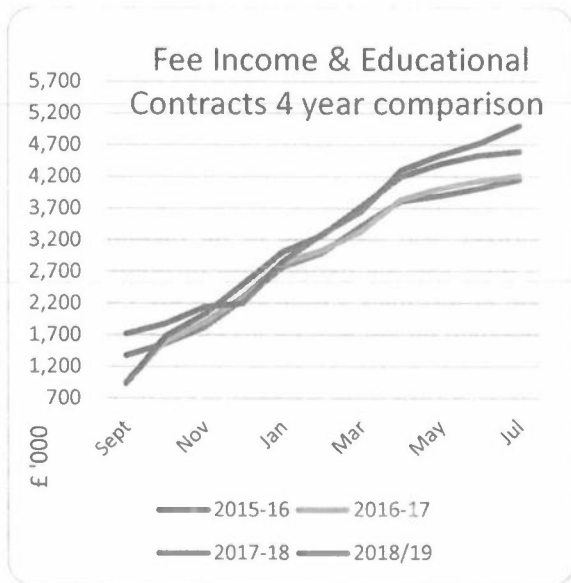
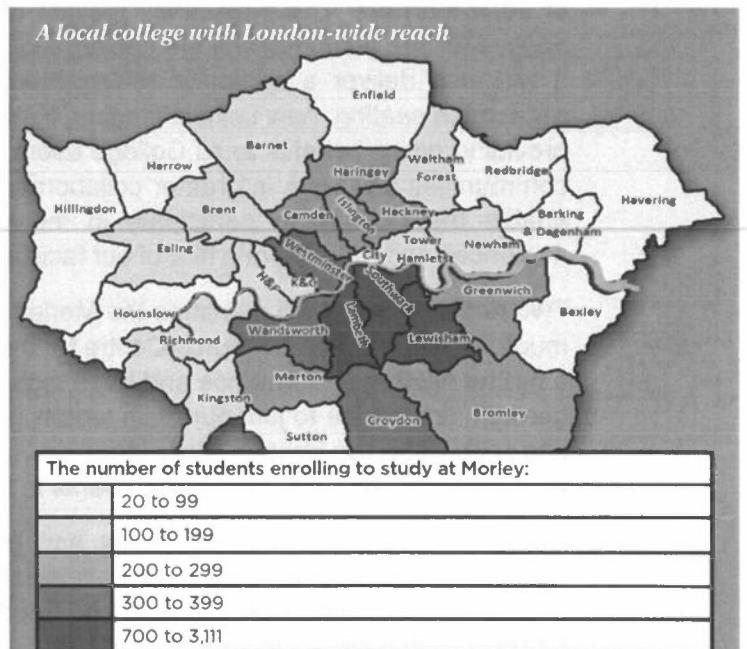
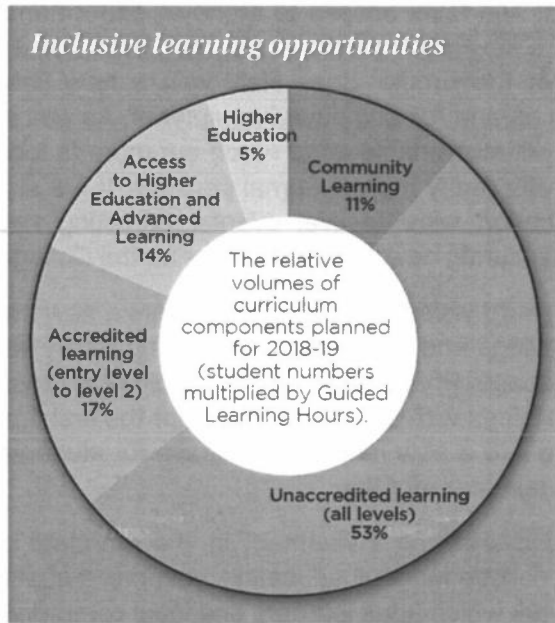
Student Stories

Morley College has built its reputation on the stories and journeys of its diverse student community. Many new students are just starting their Morley experience through a course linked to their employability, their personal interests or learning a new language. Once in the College many find the start of a long and varied pathway which can be literally life changing.

At the staff conference in September 2019, the College heard from a panel of Morley students. Each told a vastly different story of how their experience at the College had enriched their lives, with one student moving on to study Midwifery at University and another still learning complicated musical pieces to perform after decades of studying at the College. The panel discussion was recorded and available for all to listen to on Morley Radio, which was launched during 2018/19. <https://www.morleyradio.co.uk/>

The College initiated a procurement process to tender for a new website partner during 2018/19. The project is developing well with lots of exciting ideas to support the College's growing student community. The website will not only help students choose the courses to study, but also showcase more inspirational stories from our students and present the employability and self-improvement journeys that are made possible by Morley College's broad curriculum.

FACTS AND FIGURES



Total student enrolments = 25,520

Total student numbers = 11,832

Number of courses delivered = 1,253

Picture to be added here

Report of the Governing Body and Strategic Report

NATURE, OBJECTIVES AND STRATEGIES

The Governing Body, which represents the Board of Directors for the purposes of company law and the Board of Trustees for the purposes of charity law, presents its report, incorporating its Directors' and Strategic Reports, and the audited financial statements of Morley College Limited ('the College' or 'Morley') for the year ended 31 July 2019. The College is registered as Morley College Limited and uses Morley College London for branding and trading purposes.

Legal status

The College was incorporated on 18 June 1993 (Company Number 2829836) and began trading on 2 September 1993. This Company replaced the previous organisation, which was also known as Morley College, and had been in existence since it was founded in 1889. The College is an Institute for Adult Learning (formally a Specialist Designated Institution (SDI)) under the 1992 Further and Higher Education Act).

The College is a registered charity (no. 1023523) which is regulated by a scheme dated 2 September 1993, as amended 27 June 2000, 10 December 2007, 4 April 2018 and 15 July 2019. The College's application to HM Revenue and Customs for exemption from Corporation Tax was made on 6 September 1994 and was accepted on 13 September 1995. The College's activities do not fall within the scope of Corporation Tax.

Principal activities

The object of the College is the provision of education for adults in such subjects and at such standards as the Governing Body from time to time determines.

Mission

The College's mission is to empower individuals and strengthen communities through adult education in Arts, Culture and Applied Sciences.

Public benefit

Morley College was founded 130 years ago to provide a public benefit service to the community and has continued to build on and develop that service to the public throughout the years. The College's strategic goals, as agreed with the Governing Body, meet the aims of the Charity Commission's guidance on public benefit and particularly upon its supplementary guidance on the advancement of education. The College clearly demonstrates across its broad range of activities how it meets the requirement that all organisations wishing to be recognised as charities must demonstrate, and explicitly, that the aims of Morley College are for the public benefit.

In delivering its mission, the College provides the following identifiable public benefits through the advancement of education:

- High-quality teaching
- General and specialist resources and facilities
- Widening participation and tackling social exclusion

- Evidence of improved employability for students
- Strong student support systems
- Links with local employers
- Recognised contribution to the cultural life of London

The core-funding agency for the College during 2018/19 was the Education & Skills Funding Agency (ESFA) and the funding received used to provide unrestricted access to the beneficiaries. From 1 August 2019, the funding for London based Adult Education learners transfers to the Greater London Authority (GLA). This devolved funding model provides further opportunities for the College to embrace the skills for Londoners initiatives. ESFA will continue to fund the College for the 5% of students that are based outside London. The College continuously develops its curriculum to address the priorities of its communities and works closely with the London Economic Action Partnership (LEAP), which is the local enterprise partnership for London.

Implementation of strategic plan

In December 2015, the College adopted a strategic plan for the five years to 2020. The plan defines Morley's strategic direction with its priorities expressed in the statement of three overarching strategic goals:

- Create outstanding learning opportunities

By 2020, Morley College London is acknowledged locally, nationally and internationally as an outstanding adult education college specialising in the Arts, Culture and Applied Sciences, with a progressive range of participatory programmes from introductory through to higher levels of learning. Academic and artistic excellence remains central to the ambitious, enterprising and welcoming culture of the College, and ensures ever-increasing recognition of Morley as a destination within London's thriving cultural scene through an engaging programme of high quality concerts, performances, workshops and exhibitions.

- Deliver an outstanding student experience

By 2020, Morley College London is acknowledged as highly effective in meeting the diverse learning needs of the communities we serve. The quality of learning opportunities and the associated student experience create a compelling proposition. The passion for learning embodied by the staff team through their subject knowledge, enthusiasm, professional practice and external professional networks, ensures expert and innovative learning, teaching and assessment. In addition, the creative application of digital technology is increasingly a distinguishing feature of Morley's approach in addressing social exclusion and enhancing the flexibility and personalisation of learning.

- Ensure financial sustainability

By 2020, Morley College London has established key strategic partnerships to extend its reach and influence. A growing reputation in responding to the needs of employees and their employers through workplace learning and professional training draws creatively on Morley's specialist areas of subject expertise. Effective financial controls and an increasingly diversified funding model are enabling operational stability and accurate forward planning.

The mission, vision and strategic goals are fed into the operational life of the College. The words are presented in large letters on the wall of the main meeting room, to help remind management and inform our visitors of the College's strategic goals. The Senior Management Team support the strategic aims through their roles in leading the College Committees through

curriculum, quality and standards, health and safety risk and management meetings. The College's self-assessment review process helps identify the specific areas for improvement and supports colleagues to make the changes. Regular presentations to the Governors from operational areas of the College enable positive interactions and feedback.

Performance indicators

The College has developed a set of key performance indicators (KPIs) to enable the Governing Body to monitor the College's progress in implementing the Strategic Plan. The KPIs are aligned with the College strategic goals and are used by College Management to guide operational decisions. Each KPI has a target and actual performance is compared on a termly or annual basis as appropriate against this target and against past performance. Wherever possible, KPIs are benchmarked against the performance of other colleges nationally, using the data available from FE Choices. This comparison includes the results of a national student satisfaction survey, as well as the ESFA's National Achievement Rate Tables (NARTs). FE Choices data and NARTs are both available on the GOV.UK website. By analysing KPIs throughout the year, College managers and the Governing Body were able to identify areas of concern and to take appropriate and timely action.

The KPIs for 2018/19 show growth and improvement against 2017/18 and continued progress across all three strategic goals. The following captures where College performance has met or bettered the non-financial targets for the College.

Measure	Actual	Target	Status
Student satisfaction evaluation at the end of each course	95.3%	90.0%	✓
% of students who feel the college is a safe place to study	98.2%	93.0%	✓
Student retention	95.4%	92.9%	✓
Student attendance	84.3%	83.8%	✓
Room utilisation (day)	79.3%	69.0%	✓
Room utilisation (evening)	60.3%	57.9%	✓
Student destination	89.5%	78.0%	✓
Staff satisfaction	89.3%	87.5%	✓

Targets were not met on average across the College for class sizes and average cancellation rates were also above target. Actions have been taken during the year to improve the performance for 2019/20, with a focus on improving the courses and the marketing. Actions with the Curriculum, Review and Validation process will reduce cancellation rates and increase average class sizes as well as setting realistic targets for income within a target surplus budget for 2019/20. Actions are also being taken to continue to grow income from Advanced Learner Loans and Higher Education students to achieve future targets. The College also delivered a mix of performance against learner achievement targets and will continue to work hard to ensure all learning activity achieves the target achievement levels.

The College is committed to observing the importance of sector measures and indicators and uses the FE Choices data available on the GOV.UK website, which looks at measures such as success rates. The College has completed the annual Finance Record for the ESFA and the financial health score assessment for 2018/19 is "good".

Financial Position

Financial objectives

The College's financial objectives, as set out in its Finance Strategy 2016-20 are:

- to achieve in-year financial sustainability, generating positive earnings before interest, taxes, depreciation and amortisation (EBITDA) each year;
- to maintain a financial health rating of "good" or better;
- to diversify sources of income as determined by the changing mix of provision in the curriculum strategy and departmental business plans;
- to evaluate capital investment against the College's business and curriculum objectives;
- to contain borrowings to where there is clear infrastructural or strategic benefit and only to the extent determined by operational needs;
- to ensure the fees policy reflects the objectives of the Strategic Plan;
- to allocate resources through a budget process that maintains delivery standards while generating sufficient funds to maintain required levels of liquidity and allow adequate capital investment; and
- to mitigate financial risk within the context of the Strategic Plan.

Financial results

Governors approved a deficit budget for 2018/19 in line with a strategy of investment in new courses and facilities to achieve longer-term growth. The growth areas include advanced learning and higher education courses and link to a broader strategy of extending the learner pathways available to meet the aspirations of the existing and growing student community of Morley College.

- The actual outturn prior to FRS102 pension adjustments is a deficit of £217k (page 41)
- Fee income of £4,202k is up 8.3% from £3,881k in 2017/18, this is £253k for Higher Education, £25k for Advanced Learning Loans and £91k from all other fee income
- Actions to drive salary savings delivered an £81k reduction against budget
- Savings on other expenditure were £68k against budget
- Depreciation savings included delays on completion of capital works in the year.

The ESFA Health rating below delivers a score of 180, so the College remains within the "good" category.

The College has total reserves of £11,580k after a reduction of £6,784k for pension liabilities.

The College invested £956k in additional tangible fixed assets during the year. This investment focused on the refurbishment of the College reception area to create a fully accessible entrance, increased social and seminar space, a centralised Student Services function and a radio production studio. In November 2018, the lead construction contractor went into administration and this has delayed the project into 2019/20. Most of the internal works were completed within the year, with the Student Services area fully operational and Morley Radio launching in June and having an instant impact for many students. This investment was funded by additional borrowing of £500k drawn down in July 2018 and funding from the Greater London Authority Local Economic Action Partnership.

The College invested in the refurbishment of classrooms, purchase of teaching equipment and enhancing the learning environment. There were also significant upgrades to spaces within the Music and Performing Arts department started in July 2019 and made available to students in September 2019.

The College has significant reliance on the education sector funding bodies for its principal funding source, largely from recurrent grants. This reliance continues to reduce with 2018/19 grant income being 53% of the College's total income, compared to 55% in 2017/18. This movement is driven by an increasing tuition fee, from 35% of total income to 37% in 2018/19.

Treasury policies and objectives

Treasury management is the effective control of the risks associated with the College's cash flows, its banking, money market and capital market transactions and the pursuit of optimum performance consistent with those risks.

The College has a separate treasury management policy in place. Short-term borrowing for temporary revenue purposes is authorised by the Accounting Officer. All other borrowing requires the authorisation of the Governing Body and must comply with the requirements of the Financial Memorandum with the ESFA and the College's Financial Regulations.

Cash flows and liquidity

After a sustained period of high cash liquidity within the College, the implementation of the property strategy has led to a planned reduction in the cash liquidity. Within this cash flow plan, 2018/19 and 2019/20 would both show lower levels of liquidity, before funds start to grow again once the first phase of the property strategy is complete. Additional borrowing of £500k agreed by Governors was drawn down in July 2018. The College's outturn for 2018/19 was not as positive as the budget position and this resulted in the cash position at year-end of £779k falling below the Governors' cash threshold of £1m and marginally below the Governors' agreed exceptional cash level of £0.8m.

Net cash flow from operating activities was £236k (see page 44), and this reflects the investment in new courses and College maintenance in the period. Actions have been taken to ensure that the cash position is improved to get back to the original planned cash flow levels. This has included removal of some staffing posts, closure of some low-recruiting courses and a review of teaching hours.

Reserves Policy

The College recognises the importance of reserves in the financial stability of any organisation and ensures that there are adequate reserves to support the College's strategic goals. The College considers it practicable and desirable to retain a minimum level of general reserves (excluding losses or gains in respect of the pension scheme) equivalent to one term (four months) expenditure to cover the risks and uncertainties of operating its main business. The College therefore maintains a general reserve of this amount and designates any surplus unrestricted funds to specific reserves in support of its strategic goals. According to the College's budget for 2019/20, four months of expenditure (excluding depreciation) equates to £3,710k. The General Reserve of £3,485k per note 19 has dropped below this level, so there is no in-year transfer of funds to the Development Reserve and future surpluses will be used to rebuild the General Reserve to the desirable minimum level.

Picture to be added here

Current and future development and performance

Financial health

The ESFA has assessed the financial health of the College in their letter to the Principal in October 2019, and has provided grades of "Good" for 2018/19 and a projected "Good" for 2019/20.

Student numbers and fee income

In 2018/19, the College has delivered activity that has produced £5.9m in funding body main allocation funding, slightly down on £6.0m in 2017/18. Tuition fee and educational contracts income was up to £5.0m from £4.6m in 2017/18. The College had 11,832 students and 25,520 enrolments; the average student enrolls onto 2.2 courses.

Student achievements and curriculum developments

The curriculum review and validation process for 2018/19 included changes from previous years to get stronger ownership of the target figures from the Programme Area managers. The new approach linked in a new more flexible approach to course pricing based on a pilot scheme, which ran within Music and Performing Arts during 2017/18 and had shown positive impact on enrolments and income. Schools were also given an achievable target for total income and this was adjusted for expected take up levels to generate the financial budget income.

As with previous years, individual courses were assessed and unsuccessful courses were removed or re-invigorated to stimulate demand. During 2018/19, senior management instigated reviews in the poorest performing programme areas leading to the enlargement of Business and Vocational Education through absorbing the successful courses from two programme areas that were not performing as planned. This approach has maintained the broad range of subjects and progression pathways for students and minimised impact where courses were removed.

The 2018/19 and 2019/20 curriculum plan aligns with the Curriculum Strategy 2016-20. Every course in the College is assigned to a level of study in line with national frameworks. This enables clear signposting of student progression pathways on both accredited and non-accredited courses, supporting progression from entry to higher levels of learning. Across the College, there has been intricate mapping of the progression pathways for all our subject areas to help support our students in their decision making.

In 2016/17 the College successfully applied to HEFCE for direct funding and to Pearson for centre approval to run a suite of Higher National Diploma (HND) programmes in areas of study including Music and Performing Arts, Media and Fashion, Health and Social Care, and Business Management, to provide a flexible 'vocational route' of higher technical and professional education. This new Higher Education (HE) provision, the first of its kind for an adult and community-learning provider, was successfully launched in September 2017 and generated higher education fee income of £203k in 2017/18 and this rose to £415k in 2018/19 (reflected within note 3 tuition fees), the second year of the HE courses. Early indications suggest that 2019/20 will see a significant step increase with the introduction of year 3 top-up degrees and a new partnership supporting Business Studies student numbers growth.

Morley's journey towards Ofsted 'outstanding' is an ongoing project, and a measure of success is through strong student achievement, which is a clear indicator of the quality of the student

experience. At College level, student achievement remains strong for 2018/19 with an overall achievement rate of 94.4% for unaccredited learning. The progress of the project was put to the test by an Ofsted inspection, with more detail of that below.

Student progress and development of academic and vocational skills are outstanding in many subjects. The majority of Access students make excellent progress relative to their starting points and achieve more distinction and merit grades than those at other colleges. They develop excellent skills in preparation for Higher Education and progression into vocational careers.

In Visual and Digital Arts, students exhibit work in the Morley Gallery and other exhibition spaces within the College buildings. Students take part in national competitions such as 'Inspired by the V&A'. They also undertake commissions and live projects such as Transport for London and London Borough of Southwark photography commissions.

In Essential Skills, students improve their social, interpersonal and employability skills as well as developing the English and Maths skills necessary for work, home and supporting their children with schoolwork. An increasingly high number of students progress to higher-level qualifications and employment upon course completion. Many Health students report an increase in their social and economic wellbeing as professional skill development enables them to enter self-employment or expand their existing practice.

During 2017/18, under the contractual obligations established under the ESFA, the College was issued a notice to improve relating to the qualification rates for a small minority of courses being below minimum standards in 2016/17. The College acknowledged this need to secure student achievement improvements to national rate levels, with firm actions taken within its quality enhancement plan for 17/18. The College actions delivered the required improvement and ESFA closed the Notice to Improve on 15 May 2019.

Payment performance

The Late Payment of Commercial Debts (Interest) Act 1998, which came into force on 1 November 1998, requires colleges, in the absence of agreement to the contrary, to make payments to suppliers within 30 days of either the provision of goods or services or the date on which the invoice was received. The target set by the Treasury for payment to suppliers within 30 days is 95 per cent.

During the accounting period 1 August 2018 to 31 July 2019, the College paid at least 95 per cent of its invoices within 30 days. The College incurred no interest charges in respect of late payment for this period.

Events after the end of the reporting period

There were no post-balance sheet events considered material that have not been disclosed within the accounts.

Future prospects and going concern

The budget for 2019/20 brings the College back into surplus (before FRS102 non-cash adjustments). This is achieved through an increase to income of £600k and by constraining expenditure growth to £300k.

Income growth is possible based on grant funding including consolidation of historic over-delivery of Adult Education Budget, as well as additional procured funding from GLA for a four-

year contract from 2019/20. Income from educational partnerships, which was above budget in 2018/19, has also been consolidated into the new budget. The largest area of risk in the budget is linked to the curriculum plan targets and the fee income this generates. Based on the new fees and pricing strategy, the average increase in course fees was 3% across the College. Early 2019/20 enrolments data shows that student numbers are in line with 2018/19 at this point, and that there is also growth in higher education numbers. There have also been changes to the courses delivered at the two other sites, located in Stockwell and Lewington, to closer meet the community demand and to increase the volume and range of courses at these sites.

Expenditure can be controlled to growth of £300k by maintaining savings that were identified during 2018/19. Within the staffing there has been a reduction in the number of Programme Managers and a review of teaching by course to ensure optimal levels for the students and cost parameters. The College is reviewing its non-salary expenditure with the support of procurement professional advice to get better value from existing and new contracts.

Having due regard to best practice developments in the UK Corporate Governance Code 2018 in respect of going concern and risk management reporting, the College believes it will be able to continue in operation and meet its liabilities taking account of the current position and principal risks for the foreseeable future. The College's assessment of going concern is supported by:

- Careful cash flow management
- Generation of ongoing cash flow surpluses as noted in the Statement of Cash Flows
- Good Financial Health
- The College's actions to monitor budget performance
- The College's two-year Financial Plan
- Judgement of the Area Based Review Feb 2017, which recommended Morley remain as a stand-alone college
- Robust risk management processes

RESOURCES

The following sections provide more information about the College's resources available to support its strategic goals.

Buildings and accommodation

The main College site at Westminster Bridge Road and the sculpture studio at Pelham Hall are both based within Waterloo. The main College site straddles the boroughs of Southwark and Lambeth with teaching space on both sides of the road that separates the two boroughs. The teaching facilities fully use the space that has grown over the decades and aside from flexible classroom spaces, the site includes soundproof music rooms, specialist artist spaces, library, a café, performance spaces and staff offices.

At Stockwell, just behind the tube station, the College has established a satellite centre based in a former community centre building. At Lewington, there is also a satellite centre in shared facilities within a community centre; this site includes a crèche facility for students.

During the year, the College has continued to carry out work to its buildings in order to improve its facilities for learners and staff. This includes the continued work on the entrance and reception as part of the property strategy as well as new facilities within the Music and Performing Arts school and Morley Radio.

Financial

The College has £11.4 million of unrestricted net assets (after taking account of £6.8 million pension liability) and a balance of £433k of long-term debt.

People

The College employed on average 195 people during the year (expressed as full time equivalents), of whom 113 are teaching staff, and 82 are non-teaching staff. The College continues to outsource its cleaning and security operations, the cost of which is included within staff costs. Catering staff are also outsourced, as this is a trading service, the staffing costs are not shown within the College as only the costs of hospitality catering and any subsidy for the catering service are shown within non-salary costs.

Reputation

The College has a good reputation locally and nationally. Maintaining a quality brand is essential for the College's success at attracting students and creating external stakeholder relationships.

Staff and student involvement

The Governing Body includes elected staff and student members and the College encourages staff and student involvement through membership of formal committees. Staff and students are encouraged to join and support the activities of the Friends of Morley, an association that also confers membership of the College. The College considers good communication with its staff and students to be very important. The Principal and members of the Senior Management Team meet regularly with the Student Council and the Class Representatives' Association. Communication with staff takes a variety of forms, including open meetings for all staff with senior managers, regular management meetings, a well-developed intranet system and a regular staff newsletter. A conference is held each year for all staff and meetings for departmental staff are held regularly. Staff bulletins are produced regularly to enhance communication.

The College values and actively seeks feedback from all users of its services, particularly students. It monitors all formal complaints as well as reviewing its processes to ensure all matters are resolved in line with the College's policies. During 2018/19, there were 50 formal complaints, compared to 51 in 2017/18; 85% of these complaints were resolved satisfactorily within 15 working days.

Fundraising

The College undertakes fundraising in an ethical and responsible way, mindful of the communities within which it operates. The College employs systems and controls to separate and protect funds and ensure all expenditure is in line with the terms of the donation. The College is mindful of its responsibilities under the Charities (Protection and Social Investment) Act 2016 and legal rules, and ensures all activities are agreed and monitored at Senior Leadership Team level in compliance with relevant legal rules. Recognised standards are applied to ensure that fundraising is open, honest and respectful, protecting the public from undue pressure to donate. Complaints are handled and monitored through the College's complaints procedure and there were no complaints in year or previous year.

The College has launched a fundraising campaign to support its property strategy and is calling this the Morley Forward campaign. A professional fundraiser has been appointed and the campaign was launched in September 2019 and is discussed elsewhere in this report.

During 2018/19 The College received donation income of £120k, representing just over 1% of total College income. This income included funds from Trusts and Foundations and from legacy gifts. Donation income is reported in the year of receipt and the College aims to use the funds to support the donors' aims within a timely period to ensure that the wider College benefits from the generosity of the donations. A legacy gift received during 2018/19 has been used to purchase a concert grand piano to be housed in the Holst Room for public performances including free lunchtime concerts.

PRINCIPAL RISKS AND UNCERTAINTIES

During 2018/19, there was a full review of the College's risk register and its approach to risk management. Following the detailed review, which included a Governors workshop session, the revised set of risks was created, with risk 16 added by the Governors at Audit Committee to reflect the current working towards a proposed merger with Kensington and Chelsea College as discussed elsewhere in this report.

1	Failure to adapt to the changing landscape
2	Reduction in public funding
3	Failure to manage the college finances
4	Failure to comply with funding body audit requirements
5	Failure to manage health and safety
6	Failure to safeguard children and vulnerable adults
7	Failure to maintain business continuity
8	Failure to achieve student recruitment targets
9	Failure to manage capital programmes
10	Failure to deliver an outstanding student experience
11	Failure to recruit and retain competent and committed staff
12	Failure to succession plan (senior staff and governors)
13	Failure to maintain and enhance quality
14	Failure of IT systems to meet the needs of students, staff or visitors
15	Failure to prepare for a major system outage or data breach, including cyber attack
16	Failure to deliver the proposed merger as planned

Each risk listed is backed up by an individual risk report and this provides the detail to support the management of that risk. This covers

- Consequences of the risk occurring
- Events that could trigger the risk
- Risk ownership
- Risk scoring for probability and impact
- Controls in place to manage the risk
- Assurance in those controls
- Performance data to confirm that risk management is working or to identify an emerging risk
- Mitigating actions the college would take either for a major event risk or an emergent risk over time

This new approach has strong support from the Governors. The College's Risk Management Policy sets out its approach to risk management and documents the roles and responsibilities of the Governing Body, the Audit Committee, the Risk Management Committee (a sub-committee of the Senior Management Team) and other key individuals and committees. It also outlines key aspects of the risk management process and identifies the main reporting procedures.

The Risk Management Committee has played a key role in the development of the new approach to risk and has overseen the mapping of the previous thirty four risks into the new individual risk reports. The Risk Management Committee undertakes a comprehensive review of each risk to the College and identifies the actions needed to manage each risk. The Committee meets termly and identifies systems and procedures, including specific preventative actions, which should mitigate any potential impact on the College and its ability to meet its strategic goals. The internal controls are then implemented and their effectiveness and progress in mitigating risk is kept under constant review. In addition to this annual review of risk management, the Risk Management Committee also considers any risks that may arise because of a new area of activity within the College.

The College risk register is presented as a single page summary to Senior Management and to the Governors and this report is supported by a simple Risk Matrix, which maps each risk to identify the level of risk within coloured zones. This approach draws attention to those risks with higher levels of probability and impact shown in the red zone. This comprehensive report covers all sixteen identified risks and is presented to all Audit Committee meetings and to the Governing Body. The Audit Committee also receive the individual risk reports for high-risk areas and the remaining risks on an annual rotation for discussion.

The following sections consider how effective the College has been at managing the risk within the three strategic aims of the College.

Maintenance of quality of provision (Risk 13)

Failure to maintain adequate quality in its provision represents a significant risk to the College, particularly as the Strategic Plan includes growth and responsiveness to student needs. This risk is mitigated in a number of ways:

- Scrutiny of key performance indicators by the Quality and Standards Committee
- Regular review of the quality of provision against Ofsted inspection criteria
- Review of quality against the requirements of the Office for Students and the Quality Assurance Agency
- Continued development and monitoring of the Quality Enhancement Plan
- Rigorous curriculum review process that ensures the curriculum meets student interest and demand in addition to addressing the priorities of the LEAP
- Best practice in Human Resources policies and procedures to ensure high quality in teaching and support staff
- Development of a property strategy driven by the needs of the developing curriculum and building a level of reserves to support this strategy

The outcomes of the OFSTED inspection undertaken in June 2019 provide the evidence that the College's processes and scrutiny have been effective in driving quality improvement and leading to outstanding learning opportunities. The report also identifies the areas where the College can move from "good" to "outstanding".

Maintenance of an outstanding student experience (Risk 10)

The College aims to be highly effective in meeting the diverse learning needs of the communities it serves, addressing social exclusion and enhancing the flexibility and personalisation of learning. Failure to ensure quality of learning opportunities and student experience would represent a significant risk to meeting this goal. This is mitigated by:

- A high quality staff team with excellent subject knowledge and enthusiasm
- Continual professional development of staff to ensure a high standard of professional practice
- The use of external professional networks and partnerships to ensure expert and innovative learning, teaching and assessment
- The ongoing focus on three cross-cutting themes: digital inclusion, progression and employability
- A revised risk register which has better identified the triggers, controls and mitigating actions needed to maintain and improve student experience
- Ofsted inspection in June 2019 confirming good with outstanding features

Maintenance of the financial viability of the College (Risk 3)

The College's current financial health score is assessed by the ESFA as "good" as described above. Adult education funding levels remain as the main constraint on the College's financial position. College funding has suffered from a sustained period of public sector spending cuts. The College has been able to grow income through growth in provision and increased student taught hours whilst aiming to maintain the student experience. However, the actual funded income per student hour has fallen in real terms over that period.

The College has considerable reliance on continued government funding through the further education sector funding bodies and to a lesser extent through Student Loan Company and Office for Students. In 2018/19, 52% of the College's revenue was ultimately publicly funded and, despite diversification, a high level of reliance is expected to continue. From 2019/20, the largest funding body for the College will be the Greater London Authority (GLA) following devolution. The detailed agreement for the Devolution of the Adult Education Budget to the GLA is based on the current policies and practice of the ESFA rules, with only a few minor changes. GLA has also confirmed that the flexibility of Specialist Designated Institute status for the College will continue.

The financial statements report the share of the Local Government Pension Scheme deficit on the College's balance sheet in line with the requirements of FRS 102. Although this does not affect its ESFA financial health assessment, the College recognises the risk presented by the pension liability arising from its membership of this scheme.

The risk to financial viability is mitigated in a number of ways:

- Financial sustainability of the College is one of the three core strategic goals
- Budget setting procedures are rigorous and include sensitivity analysis testing
- Monthly budget monitoring throughout the year
- Robust financial controls and procedures
- Detailed forward planning, forecast updates and regular cash flow forecasting updates

- Diversification of income sources and optimising existing income streams
- Strategies for curriculum development and growth linked to financial improvement
- Creating, maintaining and managing key relationships with the funding bodies
- Engagement with GLA and its various funding channels including local enterprise funding
- Continuously ensuring the College is rigorous in delivering high quality education and training, thus ensuring value for money for students
- Close monitoring of the demand for courses linked to a responsive pricing strategy
- Monitoring and appraising the position of the pension scheme by Governors through the Finance, Resources and Fundraising Committee
- Agreed deficit recovery plan with the London Pension Fund Authority

STAKEHOLDER RELATIONSHIPS

In line with other colleges and with universities, Morley College has many stakeholders. These include:

- Students;
- Education sector funding bodies;
- Government Offices including the FE Commissioner;
- Staff;
- Local employers (with specific links);
- Local authorities;
- London Economic Action Partnership (LEAP);
- Government Offices;
- The local community;
- Other FE and HE institutions;
- Quality Assurance Agencies including Ofsted and OfS;
- Examining boards;
- Trade unions;
- Professional and membership bodies;
- Charities Commission.

The College recognises the importance of these relationships and engages in regular communication with these stakeholders. In addition, the College works in close partnership with a large number of voluntary sector, arts and other organisations to help fulfil its mission and achieve its strategic goals. Partnerships are vital to Morley's development and institutional well-being, augmenting its reputation, profile and position and providing the connections and capacity it needs to support its communities of location and practice.

During 2018/19, the College continued to progress and develop its Partnerships Protocol. The protocol classifies each individual partnership as either; creative projects partnerships; curriculum development partnerships; student progression partnerships; quality enhancement partnerships; or fundraising partnerships. This allows the College to develop each partnership with the appropriate links within the institution to best effect.

The College values its relationship with the trade unions representing its employees. Regular meeting of the Joint Consultative Committee were held, throughout 2018/19, in a positive and transparent manner. The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the college to publish the following information to outline the facility time arrangements for trade union officials at the college.

Numbers of employees during the relevant period	FTE employee number
5	2.14

Percentage of time	Number of employees
0%	
1-50%	5
51-99%	
100%	

Total cost of facility time	£1,680
Total pay bill	£8,814,209
Percentage of total bill spent on facility time	0.02%

Time spent on paid trade union activities as a percentage of total paid facility time	100%
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Equality and Diversity

The College celebrates and values the diversity brought by all members of its community, and is committed to providing the education and support that enable all members of the learning community to achieve their full potential. Action to promote Equality and Diversity is core to the College's mission, values and strategic goals. Morley's vision identifies the College as a provider of inspiring, distinctive and excellent adult learning, a College that contributes to, and is responsive to, the communities it serves.

'Respect for diversity and the promotion of equality' is one of the five core values and is central to Morley's vision as the College strives to provide relevant and challenging education and training for all sections of the community. Morley also strives to be an exemplary employer, and to ensure that the College employs a diverse workforce that is equipped with the skills necessary to achieve shared ambitions.

The College is committed to ensuring equality of opportunity for all who learn and work here. We respect and value positively differences in race, gender, sexual orientation, disability, religion or belief and age. We aim to remove conditions that place people at a disadvantage and we will actively combat bigotry. The College's Equality and Diversity Policy is published on the College's Intranet site and actions to deliver the policy are regularly monitored.

The College publishes an Annual Equality Report and Equality Objectives to ensure compliance with all relevant equality legislation including the Equality Act 2010. The College undertakes equality impact assessments on all new policies and procedures and publishes the results. Equality impact assessments are also undertaken for existing policies and procedures on a prioritised basis.

The College is strongly committed to supporting job applicants and staff with disabilities and long-term health conditions and is positive about mental health. The College has signed up to the Government's Disability Confident Scheme and has committed to the Mindful Employer's Charter. The College considers all employment applications from disabled persons, bearing in mind the aptitudes of the individuals concerned, and guarantees an interview to any disabled applicant who meets the essential criteria for the post. Where an existing employee becomes disabled, every effort is made to ensure that employment with the College continues. The College's policy is to provide training, career development and opportunities for promotion that, as far as possible, provide identical opportunities to those of non-disabled employees.

Disability statement

The College seeks to achieve the objectives set down in the Equality Act 2010:

- a) As part of its property strategy the College is ensuring the main entrance to the College is fully accessible
- b) The College provides a range of specialist equipment and assistive technology to assist learners with disabilities
- c) The College includes on its staff a number of specialist tutors and support assistants to support students with learning difficulties and/or disabilities

- d) There is a continuing programme of staff development to ensure the provision of a high level of appropriate support for learners who have learning difficulties and/or disabilities
- e) Specialist programmes are described in College prospectuses and on the College website
- f) The progress and achievement of learners who have learning difficulties and/or disabilities is carefully monitored
- g) Counselling and welfare services are described in the College's Student Handbook that is issued to students at induction.

Disclosure of information to auditors

The members who held office at the date of approval of this report confirm that, as far as they are each aware, there is no relevant audit information of which the College's auditors are unaware. Each member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the College's auditors are aware of that information.

This report and the Strategic Report (included therein) was approved by the Governing Body, as the company's board of directors, on 20 January 2020



Dr Stuart Edwards
Chair

Statement of Corporate Governance and Internal Control

The following statement is provided to enable readers of the annual report and accounts of the College to obtain a better understanding of its governance and legal structure. This statement covers the period from 1 August 2018 to 31 July 2019 and up to the date of approval of the annual report and financial statements.

The College endeavours to conduct its business:

- i. in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership);
- ii. in full accordance with the guidance to colleges from the Association of Colleges in The Code of Good Governance for English Colleges 2015 as amended in 2018; and
- iii. having due regard to the UK Corporate Governance Code 2018 insofar as it is applicable to the further education sector.

The College is committed to exhibiting best practice in all aspects of corporate governance and in particular, the College has adopted and complied with the Code of Good Governance for English Colleges. We have not adopted and therefore do not apply the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code that we consider relevant to the further education sector.

In the opinion of the Governors, the College complies with all the provisions of the Code of Good Governance for English Colleges, and it has complied throughout the year ended 31 July 2019. The Governing Body recognises that, as a body entrusted with both public and private funds, it has a particular duty to observe the highest standards of corporate governance at all times.

The College is a registered charity within the meaning of Part 3 of the Charities Act 2011. The Governors, who are also the Trustees for the purposes of the Charities Act 2011, confirm that they have had due regard for the Charity Commission's guidance on public benefit and that the required statements appear elsewhere in these financial statements.

The Governing Body

The members who served on the Governing Body during the year **and up to the date of signature of this report** were as listed in the table below. The Governors are directors and members of the College for the purposes of company law.

Continuing Members

	Date of appointment	Term of office ends	Status of appointment	Committees served and offices held 2018-19	Meetings Attended/ Possible
Mr M Bamford	15 December 2015 Reappointed 11 December 2017 Co-opted wef 1 December 2019	30 November 2020	Student member (to 30 November 2019) Co-opted member (from 1 December 2019)	Quality and Standards Joint Transition Committee	15/17

	Date of appointment	Term of office ends	Status of appointment	Committees served and offices held 2018-19	Meetings Attended/Possible
Ms J Brian	27 February 2018	31 July 2021	External member	Quality and Standards	9/10
Mr N Durston	13 April 2018	31 July 2021	External member	Finance, Resources and Fundraising	11/11
Dr S Edwards	14 December 2009 Reappointed 10 December 2013 and 16 October 2017	31 July 2021	External member	Vice-chair of Governing Body (to 31 December 2018) Chair of Governing Body (from 1 January 2019) Finance, Resources and Fundraising Search and Governance (Chair) Joint Transition Committee	18/19
Ms P Egan	2 April 2014 Reappointed 16 October 2017	31 July 2021	External member	Vice-chair of Governing Body (to 31 December 2018) Audit Remuneration (Chair) Search and Governance Joint Transition Committee	18/19
Ms H Fry	18 October 2016	31 July 2020	External member	Quality and Standards (Chair) Remuneration	10/12
Dr A Gower	13 April 2015	N/A	Principal and Chief Executive Officer	Quality and Standards Finance, Resources and Fundraising Search and Governance Joint Transition Committee	19/21
Mr L Howson	1 August 2016	31 July 2020	Staff member	Finance, Resources and Fundraising	11/11
Dr S Ketteridge	15 February 2013 Reappointed 6 February 2017	31 July 2020	External member	Quality and Standards (Vice-chair) Search and Governance Joint Transition Committee Lead Governor for Health and Safety	17/17
Ms S Lindsey	27 March 2019	30 November 2020	Student member	Finance, Resources and Fundraising	4/5

	Date of appointment	Term of office ends	Status of appointment	Committees served and offices held 2018-19	Meetings Attended/Possible
Mr V Olowe	2 April 2014 Reappointed 16 October 2017	31 July 2021	External member	Audit (Vice-chair) Search and Governance (Vice-Chair)	13/13
Mrs S Robertson-Jonas	15 October 2015	31 July 2020	Staff member	Quality and Standards	9/10
Mr M Seriki	15 February 2013 Reappointed 6 February 2017	31 July 2020	External member	Finance, Resources and Fundraising (Chair) Remuneration (Vice-chair)	11/13
Ms H Smith	13 April 2018	31 July 2021	External member	Audit (Chair)	7/7

Retiring Members

	Date of appointment	Term of office ended	Status of appointment	Committees served and offices held 2017-18	Meetings Attended/Possible
Mr P Davies CB CBE	7 November 2014	31 December 2018	External member	Chair of Governing Body Search and Governance (Vice-chair) Remuneration	5/5
Mr M Korel	28 March 2018	18 November 2018	Student member	Finance, Resources and Fundraising	1/2
Ms M McMenemy	15 February 2013 Reappointed 6 February 2017	31 July 2019	External member	Finance, Resources and Fundraising (Vice-chair) Quality and Standards (to 14 May 2018) Search and Governance	9/14
Ms S Potter	18 October 2016	1 October 2018	External member	Audit Quality and Standards (Vice-chair) Lead Governor for Safeguarding	0/1
Dr F Stephen	15 October 2013 Reappointed 16 October 2017	31 July 2019	External member	Quality and Standards Lead Governor for Equality and Diversity	11/13

Mr Martin McNeill served as Clerk to the Governing Body and Company Secretary throughout the year.

Directors and their interests

The directors of the Company are shown above and, except for any instances mentioned, served throughout the year. None of the directors have any interests in the Company.

The Clerk maintains a register of financial and personal interests of the members of the Governing Body and of senior post-holders. The register is available for inspection at the address below.

Limited liability

The Company does not have any share capital and is limited by guarantee. The liability of the members, who are the directors, is limited to £1 each in the event of the winding up of the Company.

It is the Governing Body's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Governing Body is provided with regular and timely information on the overall financial performance of the College together with other information such as performance against funding targets, proposed capital expenditure, quality matters and personnel-related matters such as health and safety and environmental issues. The Governing Body meets at least four times per year.

The Governing Body receives advice on the conduct of its business from five committees. Each committee has terms of reference, which have been approved by the Governing Body. These committees are: Audit; Finance, Resources and Fundraising; Quality and Standards; Remuneration; and Search and Governance. From May 2019, the Governing Body also received advice on matters relating to the proposed merger with Kensington and Chelsea College from a Joint Transition Committee comprising members of both colleges' governing bodies and working within terms of reference approved by both colleges' governing bodies.

Individual Governors ('lead governors') also assisted and advised the Governing Body in the oversight of particular areas of its responsibility, specifically Equality and Diversity, Fundraising, Health and Safety and Safeguarding. The range and remit of committees and the contribution that each makes to effective governance is under continual review.

Full minutes of all meetings, except those deemed to be confidential by the Governing Body, are available from the Clerk to the Governing Body at the College's registered office:

61 Westminster Bridge Road
London
SE1 7HT

All governors are able to take independent professional advice in furtherance of their duties at the College's expense and have access to the Clerk to the Governing Body, who is responsible to the Governing Body for ensuring that all applicable procedures and regulations are complied with. The appointment, evaluation and removal of the Clerk are matters for the Governing Body as a whole.

Formal agendas, papers and reports are supplied to governors prior to Board meetings. Briefings are provided on an ad hoc basis.

The Governing Body has a strong and independent non-executive element and no individual or group dominates its decision-making process. The Governing Body considers that each of its non-executive members is independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chair and Accounting Officer are separate.

Appointments to the Governing Body

Appointments to the Governing Body are matters for the consideration of the Governing Body as a whole. The Governing Body has a Search and Governance Committee, which is responsible for the selection and nomination of any new external member for the Governing Body's consideration and for considering and nominating retiring governors for re-appointment. The Governing Body is responsible for ensuring that appropriate training is provided as required.

Members of the Governing Body are appointed for a term of office not exceeding four years, except for student members who are appointed for a term not exceeding two years. Members generally serve for a maximum of two terms of office.

Governing Body performance

The Governing Body has established a comprehensive framework for evaluating its own performance and enhancing the quality of governance, comprising:

- regular review of the composition of the Governing Body and the extent to which the skills and experience of members match the needs of the College;
- analysis of the extent to which members attend board and committee meetings, participate in training and development activities and take up opportunities to engage with the day-to-day work of the College, its staff and students;
- an annual survey of members' views of the effectiveness of the Governing Body;
- an annual review of the impact of the Governing Body on the success of the College;
- a biennial development interview with each member of the Governing Body;
- an annual review of the effectiveness of each committee in discharging the responsibilities delegated to it; and
- a periodic (currently triennial) evaluation of the effectiveness of governance by an independent consultant.

Having considered its overall performance in 2018-19, the Governing Body has identified the following five key strengths of governance at the College:

- a clear understanding of the College's mission, vision and strategy, with a robust Strategic Plan and effective arrangements for monitoring its implementation;
- a strong commitment to the values and ethos of the College;
- rigorous monitoring of performance, supported by high-quality reports, including detailed performance analysis, with further assurance provided through the work of well-focused and well-led committees;
- a good balance of support and challenge to the Senior Management Team, founded on a shared understanding of the respective roles of governance and management; and
- effective arrangements for governor induction and development.

At the same time, the Governing Body has recognised the following three areas for enhancement:

- to continue to engage with existing stakeholders (particularly students, but also wider communities), and build strong relationships with new stakeholders by communicating in an accessible and transparent manner that encourages feedback;

- to strengthen financial governance and risk management, taking account of the recommendations of the FE Commissioner and the ESFA; and
- to promote greater diversity within the Governing Body and the Senior Management Team.

Committees of the Governing Body

Audit Committee

The Audit Committee comprises between three and six members of the Governing Body (excluding staff members, the Accounting Officer and the Chair of the Governing Body). The Committee operates in accordance with written terms of reference approved by the Governing Body.

The Audit Committee meets at least termly and provides a forum for reporting by the College's internal and financial statements auditors, and by the accountants appointed to report on regularity, all of whom have access to the Committee for independent discussion, without the presence of College management. The Committee also receives and considers reports from the main funding bodies as they affect the College's business.

The College's internal auditors review the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee.

Management is responsible for the implementation of agreed audit recommendations and internal audit undertakes periodic follow-up reviews to ensure such recommendations have been implemented.

The Audit Committee also advises the Governing Body on the appointment of internal and financial statements auditors and of accountants to report on regularity and on their remuneration for audit and non-audit work. In common with all other committees, it provides an annual report to the Governing Body summarising its work over the preceding year.

Finance, Resources and Fundraising Committee

The Finance, Resources and Fundraising Committee comprises between six and eight members of the Governing Body. The Committee advises the Governing Body and provides it with assurance on matters relating to its responsibilities for oversight of financial health, financial management, estates, human resources, fundraising, health and safety and environmental sustainability.

Quality and Standards Committee

The Quality and Standards Committee comprises between six and eight members of the Governing Body. The Committee advises the Governing Body and provides it with assurance on the quality of learning, teaching and assessment, with particular reference to standards, outcomes for learners, curriculum offer, inclusion and the enhancement of the Morley student experience.

Remuneration Committee

The Remuneration Committee comprises four members of the Governing Body (excluding staff and student members and the Accounting Officer). The Committee advises the Governing Body on the remuneration and benefits of the Accounting Officer and other holders of senior posts and on leadership development and succession planning for the Senior Management Team. The senior post-holders within the remit of the Remuneration Committee comprise the Principal, the Deputy Principal, the Vice Principal, the Director of Finance and the Clerk to the Governing Body and Company Secretary. The Governing Body has a clear policy on the remuneration of senior post holders, which is determined following consideration by the Remuneration Committee of the value of and market rate for each role with due regard

to the overall financial position of the College, the median rate of pay for College staff and any overall staff pay award. The policy also provides for the payment of non-consolidated awards of up to three per cent of salary to recognise exceptional performance and places restrictions on earnings from external work..

Details of remuneration for the year ended 31 July 2019 are set out in notes 6 and 7 to the financial statements.

Search and Governance Committee

The Search and Governance Committee comprises between four and seven members of the Governing Body (excluding staff and student members). The Committee advises the Governing Body on the appointment and re-appointment of external members and on all matters relating to the governance of the College, including the development of the Board as a whole and of individual governors, the setting of targets for Governing Body performance and the related performance review arrangements.

Joint Transition Committee

The Joint Transition Committee was set up to oversee business combination preparations and consisted of members from the Governing Bodies and Senior Management Teams of both Morley and KCC.

Internal control

Scope of responsibility

The Governing Body is ultimately responsible for the College's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Governing Body has delegated to the Principal, as Accounting Officer, the day-to-day responsibility for maintaining a sound system of internal control that supports the achievement of the College's policies, aims and objectives, whilst safeguarding the public funds and assets for which he is personally responsible, in accordance with the responsibilities assigned to him in the Financial Memorandum between the College and the ESFA. He is also responsible for reporting to the Governing Body any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of College policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the College for the year ended 31 July 2019 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Governing Body has reviewed the key risks to which the College is exposed together with the operating, financial and compliance controls that have been implemented to mitigate those risks. The Governing Body is of the view that there is a formal ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the period ending 31 July 2019 and up to the date of approval of the annual report and accounts. This process is regularly reviewed by the Governing Body.

The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems, with an annual budget which is reviewed and agreed by the Governing Body;
- regular reviews by the Governing Body of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines; and
- the adoption of formal project management disciplines, where appropriate.

The College has commissioned an internal audit service, which operates in accordance with the requirements of the ESFA's *Post 16 Audit Code of Practice*. The work of the internal audit service is informed by an analysis of the risks to which the College is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Governing Body on the recommendation of the Audit Committee. At minimum, annually, the internal audit service provider provides the Governing Body with a report on internal audit activity in the College.

Review of effectiveness

As Accounting Officer, the Principal has responsibility for reviewing the effectiveness of the system of internal control. His review of the effectiveness of the system of internal control is informed by:

- the work of the internal audit service provider;
- the work of the executive managers within the College who have responsibility for the development and maintenance of the internal control framework; and
- comments made by the College's financial statements auditors and the reporting accountants for regularity assurance in their management letters and other reports.

The Accounting Officer has been advised on the implications of the result of his review of the effectiveness of the system of internal control by the Audit Committee, which oversees the work of the internal audit service provider and other assurance providers and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Risk Management Committee comprises members of the Senior Management Team and other co-opted members with an understanding of Health and Safety, Premises, IT, HR, Finance and academic issues. The Committee receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention by early warning mechanisms, which are embedded across the College and reinforced by risk awareness training.

The Risk Management Committee and the Audit Committee also receive regular reports from the internal audit service provider and other providers of assurance, which may include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Governing Body's agenda includes a regular item for consideration of risk and control and it receives relevant reports from the Senior Management Team and the Audit Committee. The emphasis is on obtaining the appropriate degree of assurance and not merely reporting by exception.

At its December 2019 meeting, the Governing Body carried out the annual assessment for the year ended 31 July 2019 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2019.

Based on the advice of the Audit Committee and the Accounting Officer, the Governing Body is of the opinion that the College has an adequate and effective framework for governance, risk management and control, and has fulfilled its statutory responsibility for “*the effective and efficient use of resources, the solvency of the institution and the body and the safeguarding of their assets*”.

Going concern

After making appropriate enquiries, and taking account of:

- the sound level of liquidity as at 31 July 2019
- the financial health rating (“good”)
- the College’s performance against budget
- the two-year Financial Plan

The Governing Body considers that the College as currently operating ahead of business combination has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements.

With the business combination of Morley College incorporating Kensington and Chelsea College, the going concern assessment has been based on the financial planning projections as provided to the Department for Education to support the process. This financial model has been subject to due diligence and is the basis for government funding to support the enlarged combined college. With the combination of the financial projections, the scenario testing provided in the due diligence report and the support package of funding from government, the future college is considered a going concern and can adopt this basis in preparing the financial statements.

Approved by order of the members of the Governing Body on 20 January 2020 and signed on its behalf by:

Signed



Dr Stuart Edwards
Chair

Signed



Dr Andrew Gower
Accounting Officer

Governing Body's Statement on the College's Regularity, Propriety and Compliance with Funding Body terms and conditions of funding

The Governing Body has considered its responsibility to notify the Education and Skills Funding Agency (ESFA) of material irregularity, impropriety and non-compliance with terms and conditions of funding, under the College's financial memorandum. As part of our consideration we have had due regard to the requirements of the financial memorandum.

We confirm on behalf of the Governing Body, that after due enquiry, and to the best of our knowledge, we are able to identify any material irregular or improper use of funds by the College, or material non-compliance with the terms and conditions of funding under the College's financial memorandum.

We confirm that no instances of material irregularity, impropriety or funding non-compliance have been discovered to date. If any instances are identified after the date of this statement, these will be notified to the ESFA.



Dr Stuart Edwards
Chair

20 January 2020



Dr Andrew Gower
Accounting Officer

20 January 2020

Statement of Responsibilities of the Governing Body

The members of the Governing Body (who act as trustees for the charitable activities of the College, and are also the directors of the College for the purposes of company law) are required to present audited financial statements for each financial year.

Company law and the law applicable to charities in England and the terms and conditions of the Financial Memorandum between the ESFA and the Governing Body of the College, require the Governing Body of the College to prepare financial statements and the Report of the Governing Body and Strategic Report for each financial year, in accordance with the *Statement of Recommended Practice – Accounting for Further and Higher Education Institutions*, the *Accounts Direction* issued by the ESFA, and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) and which give a true and fair view of the state of affairs of the College's deficit of income over expenditure for that period.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the College and of the College's surplus/deficit of income over expenditure for that period.

In preparing the financial statements, the Governing Body is required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that the College will continue in operation.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy, at any time, the financial position of the College, and which enable them to ensure that the financial statements are prepared in accordance with the Companies Act 2006 and other relevant accounting standards. They are responsible for taking steps in order to safeguard the assets of the College and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the College website is the responsibility of the Governing Body of the College; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Members of the Governing Body are responsible for ensuring that funds from the ESFA, and GLA through devolution, are used only in accordance with the authorities that govern them as defined by and in accordance with the Further and Higher Education Act 1992, subsequent legislation and related regulations and the Financial Memorandum with the ESFA and any other conditions that may be prescribed from time to time.

Approved by order of the members of the Governing Body on 20 January 2020 and signed on its behalf by:



Dr Stuart Edwards
Chair

INDEPENDENT AUDITOR'S REPORT TO THE GOVERNING BODY OF MORLEY COLLEGE LIMITED

Opinion

We have audited the financial statements of Morley College Limited (the "College") for the year ended 31 July 2019 which comprise the College statement of comprehensive income, the College balance sheet, the College statement of changes in reserves, the College statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 July 2019 and of the College's deficit of income over expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the College in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the governors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the governors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the College's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Report and Financial Statements other than the financial statements and our auditor's report thereon. The governors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Governing Body and the incorporated strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Governing Body and the incorporated strategic report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 or the Post-16 Audit Code of Practice 2018 to 2019 issued by the Education and Skills Funding Agency requires us to report to you if, in our opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations required for our audit.

Responsibilities of the Governing Body of Morley College Limited

As explained more fully in the Statement of the Governing Body's Responsibilities set out on page 36, the Governing Body (who act as trustees for the charitable activities of the college, and are also the directors and members of the college for the purposes of company law) is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Governing Body determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governing Body is responsible for assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Governing Body either intends to liquidate the College or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance,

but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Governing Body, as a body, those matters we are engaged to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governing Body, as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

HANNAH CATCHPOOL (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

Date: 31 January 2020

Statement of Comprehensive Income For the year ended 31 July 2019

	Notes	2019 £'000	2018 £'000 (Restated)
INCOME			
Funding body grants	2	6,002	6,052
Tuition fees and education contracts	3	4,991	4,592
Other income	4	424	375
Endowment and investment income	5	11	8
Total income		11,428	11,027
EXPENDITURE			
Staff costs	6	8,814	8,312
Other operating expenses	8	2,732	2,574
Depreciation and amortisation	11	699	661
Interest and other finance costs	9	157	175
Total expenditure		12,402	11,722
(Deficit) before other gains and losses		(974)	(695)
Gain on investments		4	4
(Deficit) before tax		(970)	(691)
Taxation		-	-
(Deficit) for the year	10	(970)	(691)
Remeasurement of defined benefit pensions liability	20	(440)	1,322
Total Comprehensive Income for the year		(1,410)	631
Represented by:			
Unrestricted comprehensive income		(1,418)	638
Restricted comprehensive income		8	(7)
		(1,410)	631
Memo item: surplus prior to FRS102 pensions adjustments			
(Deficit) before other gains and losses		(974)	(695)
Interest and other finance costs relating to defined pension benefit scheme	9	157	175
FRS 102 pension costs within staff costs	6	600	524
(Deficit)/ Surplus prior to FRS102 pensions adjustments		(217)	4

Statement of Changes in Reserves For the year ended 31 July 2019

	Income and Expenditure account	Restricted Reserves	Revaluation reserve	Total
	£'000	£'000	£'000	£'000
Balance at 31st July 2017	(2,002)	159	14,202	12,359
(Deficit) from the income and expenditure account	(688)	(7)	-	(695)
Other comprehensive income	1,322	-	-	1,322
Other gains	-	-	4	4
Total comprehensive income for the year	634	(7)	4	631
Balance at 31st July 2018	(1,368)	152	14,206	12,990
(Deficit) from the income and expenditure account	(982)	8	-	(974)
Other comprehensive income	(440)	-	-	(440)
Other gains	-	-	4	4
Total comprehensive income for the year	(1,422)	8	4	(1,410)
Balance at 31st July 2019	(2,790)	160	14,210	11,580

Balance sheet as at 31 July 2019

Company registration number 2829836

	Notes	2019 £'000	2018 £'000
Fixed assets			
Tangible fixed assets	11	18,830	18,549
Intangible assets	11	87	55
Investments	13	236	232
		19,153	18,836
Current assets			
Trade and other receivables	14	572	599
Cash and cash equivalents	18	779	1,577
		1,351	2,176
Less: Creditors – amounts falling due within one year	15	(1,190)	(1,552)
Net current assets		161	624
Total assets less current liabilities		19,314	19,460
Less: Creditors – amounts falling due after more than one year	16	(950)	(883)
Provisions			
Defined benefit pension scheme	20	(6,784)	(5,587)
Total net assets		11,580	12,990
Restricted reserves			
	19	160	152
Unrestricted reserves			
Pension reserve	21	(6,784)	(5,587)
Income and expenditure account	19	3,994	4,219
Revaluation reserve	19	14,210	14,206
Total unrestricted reserves		11,420	12,838
Total reserves		11,580	12,990

The financial statements on pages 41 to 68 were approved and authorised for issue by the Governing Body on 20 January 2020 and were signed on its behalf on that date by:



Dr Stuart Edwards
Chair



Dr Andrew Gower
Accounting Officer

Statement of Cash Flows For the year ended 31 July 2019

	Notes	2019 £'000	2018 £'000
Operating activities			
(Deficit) for the year		(974)	(695)
Adjustment for non-cash items			
Depreciation and amortisation		699	661
Decrease/ (increase) in debtors		27	(245)
(Decrease)/ increase in creditors due within one year		(362)	171
Increase in creditors due after one year		101	271
Pensions costs less contributions payable		757	699
Adjustment for investing or financing activities			
Investment income		(11)	(8)
Net cash flow from operating activities		237	854
Cash flows from investing activities			
Investment income		11	8
Purchase of non-current assets – tangible assets	11	(957)	(1,951)
Purchase of non-current assets – intangible assets	11	(55)	(32)
		<u>(1,001)</u>	<u>(1,975)</u>
Financing activities			
Repayments of amounts borrowed		(34)	-
New unsecured loans		-	500
		<u>(34)</u>	<u>500</u>
(Decrease) in cash and cash equivalents in the year		(798)	(621)
Cash and cash equivalents at beginning of the year	18	1,577	2,198
Cash and cash equivalents at end of the year	18	<u>779</u>	<u>1,577</u>

Notes to the Accounts

1. Statement of accounting policies and estimation techniques

The following accounting policies have been applied consistently in dealing with items, which are considered material in relation to the financial statements.

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (the 2015 FE HE SORP), the College Accounts Direction for 2018 to 2019 and in accordance with Financial Reporting Standard 102 – “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (FRS 102). The College is a public benefit entity and has therefore applied the relevant public benefit requirements of FRS 102.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the College's accounting policies.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the use of previous valuations as deemed cost at transition for certain non-current assets and for fixed asset investments that are carried at market value.

The College's financial statements are presented in sterling, which is also the functional currency of the College. Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise indicated.

Going concern

The activities of the College, together with the factors likely to affect its future development and performance are set out in the Report of the Governing Body and Strategic Report. The financial position of the College, its cash flow, liquidity and borrowings are presented in the Financial Statements and accompanying Notes.

The College has a loan for £500k, which was drawn down in July 2018 and has a term of 20 years. This borrowing supports the current property strategy to create a new College entrance, reception and a second phase to refurbish the gallery.

Accordingly, the College has a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future, and for this reason will continue to adopt the going concern basis in the preparation of its Financial Statements.

The College justifies this statement based on its progress against its financial strategy for the period to 2020. This includes curriculum planning and detailed departmental plans alongside the two-year rolling departmental reviews, which demonstrate consistent progress across the portfolio of activity to drive the financial contributions needed to maintain the ongoing financial sustainability of the College.

The College is in the process of working towards business combination with Kensington and Chelsea College (KCC) with a proposed date of 3 February 2020. Under the proposal KCC would merge into Morley College as a business combination under the Statement of Recommended Practice: Accounting for Further and Higher Education. The combined College is considered a going concern based on a detailed financial plan for the period to 2024/25 as agreed with ESFA. The financial model has also been subjected to due diligence, using an independent team from the external auditors, and the review included sensitivity testing. A funding package for the merger has been negotiated with the ESFA and this includes funding

to refurbish buildings at KCC as well as the administrative costs of the business combination. Part of the package is a support fund of £3.5m to ensure that cash does not drop below 45 days cover throughout the period to July 2025.

Recognition of income

Revenue grant funding

The recurrent grant from the ESFA represents the funding allocations attributable to the current financial year and is credited direct to the income and expenditure account. Funding body recurrent grants are measured in line with best estimates for the period of what is receivable and depend on the particular income stream involved. Any under achievement for the Adult Education Budget, unless within tolerance limits, is adjusted for and reflected in the level of recurrent grant recognised in the income and expenditure account. The final grant income is normally determined with the conclusion of the year-end reconciliation process with correspondence from the funding body and the results of any funding audits. 16-18 learner-responsive funding is not normally subject to reconciliation and is therefore not subject to contract adjustments.

Where part of a government grant is deferred, the deferred element is recognised as deferred income within creditors and allocated between creditors due within one year and creditors due after more than one year as appropriate.

Grants (including research grants) from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Tuition fee income

Income from tuition fees is stated gross of any expenditure, which is not a discount and is recognised in the period for which it is received; this includes all fees payable by students or their sponsors.

Investment income

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned on a receivable basis.

Capital grant funding

Government capital grants are capitalised, held as deferred income and recognised in income over the expected useful life of the asset, under the accrual model as permitted by FRS 102. Other, non-governmental, capital grants are recognised in income when the College is entitled to the funds subject to any performance related conditions being met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the Balance Sheet and released to income as conditions are met.

The deferred income is allocated between creditors due within one year and those due after more than one year.

Agency arrangements

The College acts as an agent in the collection and payment of certain discretionary support funds and any other arrangements. Related payments received from the funding bodies and subsequent disbursements to students are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Accounting for post-employment benefits

Post-employment benefits to employees of the College are principally provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit plans, which are externally funded and contracted out of the State Second Pension.

Teachers' Pension Scheme (TPS)

The TPS is an unfunded scheme. Contributions to the TPS are calculated to spread the cost of pensions over employees' working lives with the College in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of valuations using a prospective benefit method.

The TPS is a multi-employer scheme and there is insufficient information available to use defined benefit accounting. The TPS is therefore treated as a defined contribution plan and the contributions recognised as an expense in the income statement in the periods during which services are rendered by employees.

Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

London Pensions Fund Authority (LPFA), Local Government Pension Scheme (LGPS)

The LGPS is a funded scheme. The assets of the LGPS are measured using closing fair values. LGPS liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and the costs of scheme introductions, benefit changes, settlements and curtailments. They are included as part of staff costs as incurred.

Net interest on the net defined benefit liability/asset is also recognised in the Statement of Comprehensive Income and comprises the interest cost on the defined benefit obligation and interest income on the scheme assets, calculated by multiplying the fair value of the scheme assets at the beginning of the period by the rate used to discount the benefit obligations. The difference between the interest income on the scheme assets and the actual return on the scheme assets is recognised in interest and other finance costs.

Actuarial gains and losses are recognised immediately in actuarial gains and losses.

The following quote is taken from the LPFA annual valuation report, which the valuation used in the accounts:

"On 22 January 2018, the Government published the outcome to its Indexation and equalisation of Guaranteed Minimum Pension (GMP) in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016.

Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we

need to make any adjustments to the value placed on the liabilities as a result of the above outcome”.

Short-term employment benefits

Short-term employment benefits such as salaries and compensated absences (holiday pay) are recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

Termination of employment costs

The best estimate of expenditure required to settle an obligation for termination benefits is recognised immediately as an expense when the College is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

Non-current Assets - Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Land and buildings

The College’s buildings are specialised buildings and therefore it is not appropriate to value them based on open market value. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the College of 50 years.

Internal buildings improvements or modifications, which add to the long-term value of the building, are depreciated over a period of up to twenty years.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the income and expenditure account. On adoption of FRS 102, the College followed the transitional provision and elected to use the fair value of land at 1 August 2014 as deemed cost but not to adopt a policy of revaluations of land in the future. The College retained the book value of all other assets.

Assets under construction

Assets under construction are accounted for at cost, based on the value of architects’ certificates and other direct costs, incurred to 31 July 2019. They are not depreciated until they are brought into use.

Equipment

Equipment costing less than £3,000 per individual item is recognised as expenditure in the period of acquisition. All other equipment is capitalised at cost and depreciated over its useful economic life on a straight-line as follows:

General equipment	3 to 10 years
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Computer equipment	3 years
Pianos	10 years
Lift	10 years
Boilers	10 years

In the year of acquisition, assets are depreciated from the starting month of the assets' useful economic life. Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets after initial purchase it is charged in the period it is incurred, unless it increases the future benefits to the College, in which case it is capitalised and depreciated on the relevant basis. The cost of routine corrective maintenance is charged to the income and expenditure account in the period it is incurred.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of any fixed asset may not be recoverable. Shortfalls between the carrying value of fixed assets and their recoverable amounts are recognised as impairments. Impairment losses are recognised in the Statement of Comprehensive Income and Expenditure.

Heritage Assets

The College has a collection of paintings, drawings and sculptures, which are held to enhance the fabric of its buildings or to celebrate its distinguished history in the liberal arts and add to the College's contribution to knowledge and culture. The Governing Body considers that, owing to the incomparable nature of these paintings, drawings and sculptures, conventional valuation approaches lack sufficient reliability and that, even if the valuations could be obtained, the costs would be onerous compared with the additional benefits derived by the College and users of the accounts. As a result, no value is reported for these assets in the balance sheet.

Intangible Assets

Intangible assets comprise software licences and information technology. Items costing less than £3,000 are written off to the income and expenditure account in the year of acquisition. All other items are capitalised and amortised over five years.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term to the Statement of Comprehensive Income and Expenditure.

Fixed asset investments

Fixed asset investments are carried at their market value less any provision for impairment in their value. Any increase or decrease in value during the year is credited or debited to the revaluation reserve.

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. An investment qualifies as a cash equivalent when it has maturity of 3 months or less from the date of acquisition.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

All loans, investments and short-term deposits held by the College are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the College has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Taxation

The College is a registered charity and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The College received no similar exemption in respect of value added tax. For this reason, and because the College is not VAT registered, the College is unable to recover the input VAT it suffers on goods and services purchased. Non-pay expenditure is therefore shown inclusive of VAT.

Provisions and contingent liabilities

Provisions are recognised when

- the College has a present legal or constructive obligation as a result of a past event
- it is probable that a transfer of economic benefit will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the statement of comprehensive income in the period it arises.

A contingent liability arises from a past event that gives the College a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College. Contingent liabilities also arise in circumstances where

a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but are disclosed in the notes to the financial statements.

Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, management have made the following judgements:

- Determine whether leases entered into by the College either as a lessor or as a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease-by-lease basis.
- Determine whether there are indicators of impairment of the College's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability of the asset. Where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.
- With regard to the business combination with KCC and the funding from the DfE, the only costs of preparation for merger as at 31 July 2019 were under £20k and these were included at cost and offset by a matching debtor. The debtor was included based on the judgement and expectation that these costs would be funded by DfE.

Other key sources of estimation uncertainty

- *Tangible fixed assets*

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- *Local Government Pension Scheme*

The present value of the Local Government Pension Scheme defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions, which are disclosed in note 21, will impact the carrying amount of the pension liability. Furthermore a roll forward approach which projects results from the latest full actuarial valuation performed at 31 March 2016 has been used by the actuary in valuing the pensions liability at 31 July 2019. Any differences between the figures derived from the roll forward approach and a full actuarial valuation would impact on the carrying amount of the pension liability.

2 Funding body grants

	2019	2018
	£'000	£'000
Recurrent grants		
Education and Skills Funding Agency – adult	5,869	5,922
Education and Skills Funding Agency – 16-18	21	58
Office for Students	17	19
Specific Grants		
Releases of government capital grants	76	49
Release of GLA LEAP capital award	19	4
Total	<u>6,002</u>	<u>6,052</u>

3 Tuition fees and education contracts

	2019	2018
	£'000	£'000
Tuition fees	4,202	3,881
Education contracts	789	711
Total	<u>4,991</u>	<u>4,592</u>

4 Other income

	2019	2018
	£'000	£'000
Other income generating activities	424	375
Total	<u>424</u>	<u>375</u>

5 Investment income

	2019	2018
	£'000	£'000
Other investment income	7	7
Other interest receivable	4	1
Total	<u>11</u>	<u>8</u>

6 Staff costs

The average number of persons (including key management personnel) employed by the College during the year, described as full-time equivalents, was:

	2019	2018
	No.	No.
Teaching staff	113	108
Non-teaching staff	82	83
	<u>195</u>	<u>191</u>

The average monthly number of persons (including key management personnel) employed by the College during the year was:

	2019	2018
	No.	No.
Teaching staff	442	396
Non-teaching staff	91	122
	<u>533</u>	<u>518</u>

Staff costs for the above persons	2019	2018
	£'000	£'000
		(Restated)
Wages and salaries	6,802	6,490
Social security costs	531	462
Other pension costs	868	828
FRS 102 pension cost adjustments	600	524
Sub total	<u>8,801</u>	<u>8,307</u>
Restructuring costs	13	5
	<u>8,814</u>	<u>8,312</u>

Staff costs have been restated by £269k relating to outsourced Cleaning and Security costs, which the Governing body have considered as more appropriately disclosed as premise costs (see note 8).

7 Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the College and are represented by the Senior Management Team, which comprises the Principal, Deputy Principal, Vice Principal and Director of Finance. Staff costs include compensation paid to key management personnel for loss of office.

Emoluments of Key management personnel, Accounting Officer and other higher paid staff

	2019	2018
	No.	No.
The number of key management personnel including the Accounting Officer was:	4	4

The number of key management personnel and other staff who received annual emoluments, excluding pension contributions and employers national insurance but including benefits in kind, in the following ranges was:

	Key management personnel		Other staff	
	2019	2018	2019	2018
	No.	No.	No.	No.
£60,001 to £65,000	-	-	1	1
£70,001 to £75,000	-	2	-	-
£75,001 to £80,000	3	1	-	-
£105,001 to £110,000	-	1	-	-
£110,001 to £115,000	1	-	-	-
	4	4	1	1

Key management personnel compensation is made up as follows:

	2019	2018
	£'000	£'000
Salaries - gross of salary sacrifice and waived emoluments	349	330
Employers National Insurance	43	41
Benefits in kind	3	4
	402	375
Pension contributions	50	48
Total emoluments	445	423

There were no amounts due to key management personnel that were waived in the year, nor any salary sacrifice arrangements in place. The above compensation includes amounts payable to the Accounting Officer (who is also the highest paid officer) of:

	2019	2018
	£'000	£'000
Salaries	110	105
Benefits in kind	1	1
	111	106
Pension contributions	18	17
Total emoluments	129	123

The multiple of median earnings represented by the Principal's salary is 3.49 times (2017/18 = 3.52). Based on total emoluments the multiple of median earnings is 4.55 times (2017/18 = 4.48). The median salary for the College is £31,415 (2017/18 =£30,323).

The pension contributions in respect of the Accounting Officer and key management personnel are in respect of employers' contributions to the Teachers' or Local Government Pension Schemes and are paid at the same rate as for other employees.

The accounting officers and staff members only receive remuneration in respect of services they provide undertaking their roles of Principal and staff members under contracts of employment and not in respect of their roles as governors.

The members of the Governing Body other than the Accounting Officer and the staff members did not receive any payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties. During the year 4 governors (2017/18 = 4) with total expenses of £2,915 (2017/18 = £1,501) were paid to or on their behalf.

8 Other operating expenses

	2019 £'000	2018 £'000 (Restated)
Teaching costs	727	685
Non-teaching costs	1,052	985
Premises costs	953	904
Total	2,732	2,574

Premise costs have been restated by £269k relating to outsourced Cleaning and Security costs, which the Governing body have considered as more appropriately disclosed within premise costs rather than as staff costs (see note 6).

Other operating expenses include:

	2019 £'000	2018 £'000
Auditors' remuneration:		
Financial statements audit (including regularity)	27	25
Internal audit	20	20
Hire of assets under operating leases	101	56

9 Interest payable

	2019 £'000	2018 £'000
Net interest on defined pension liability (note 21)	157	175
Total	157	175

10 Deficit on continuing operations for the year

The deficit for the year on continuing operations for the period is made up as follows:

	2019 £'000	2018 £'000
Operating (deficit)/ surplus prior to FRS 102 pension adjustment	(227)	30
Movement in holiday pay accrual	10	(26)
FRS 102 net impact on income and expenditure account	<u>(757)</u>	<u>(699)</u>
College's (deficit) for the period	<u>(974)</u>	<u>(695)</u>

11 Tangible fixed assets

	Freehold land and buildings £'000	Equipment £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation				
At 1 August 2018	19,104	3,923	1,091	24,118
Additions	41	186	730	957
At 31 July 2019	<u>19,145</u>	<u>4,109</u>	<u>1,821</u>	<u>25,075</u>
Depreciation				
At 1 August 2018	2,303	3,266	-	5,569
Charge for the year	280	396	-	676
At 31 July 2019	<u>2,583</u>	<u>3,662</u>	<u>-</u>	<u>6,245</u>
Net book value at 31 July 2019	<u>16,562</u>	<u>447</u>	<u>1,821</u>	<u>18,830</u>
Net book value at 31 July 2018	<u>16,801</u>	<u>657</u>	<u>1,091</u>	<u>18,549</u>

The value of freehold land not depreciated is £14.5m. Land was valued as at 1 August 2014 by Gerald Eve LLP, a firm of independent chartered surveyors.

Intangible assets

	Software £'000
Cost or valuation	
At 1 August 2018	443
Additions	55
At 31 July 2019	<u>498</u>
Amortisation	
At 1 August 2018	388
Charge for the year	23
At 31 July 2019	<u>411</u>
Net book value at 31 July 2019	<u>87</u>

Net book value at 31 July 2018

55

The College has given a fixed charge over some of the College's freehold land and buildings to the London Pensions Fund Authority. This action secures a reduced employer contribution to the pension scheme through reduced pension risk.

In addition to the assets outlined above, the College owns a collection of artworks of historical and artistic importance, which it deems to be heritage assets as defined under FRS 102 (34). The collection comprises paintings, drawings and sculptures, which have been commissioned or acquired at various times by the College either to enhance the fabric of its buildings or to celebrate its distinguished history in the liberal arts. The collection is considered to be part of the College's ethos in relation to its educational approach and integral to its broader objective of educating the public in the arts. It is not practical to ascertain the cost of these assets.

The College considers that these heritage assets cannot be reasonably valued and has therefore, and in accordance with paragraph 18.14 of the Charities SORP 2015, not included them in its balance sheet.

12 Capital Commitments

The College continues to progress its property strategy and in October 2017, after a full tender process, the College committed to expenditure of £1.3m (excluding VAT) with a building contractor to progress the next phase of this strategy. During the year, the building contractor entered administration and the building works were consequently delayed. The internal works were completed using the sub-contractors in place, but the major external entrance works required a new building contractor. Works recommenced in September 2019 with a new completion date of December 2019. This project realises a significant enhancement to the College estate. As at 31 July 2019, the College has incurred £1.8m (including VAT) under this contract, with a balance of £0.5m.

13 Non-current investments

	2019 £'000	2018 £'000
(i) M & G Charifund investments	63	65
(ii) STIC Global investments	117	116
(iii) COIF Bursary and Prize Fund investments	56	51
Total	<u>236</u>	<u>232</u>

Total investment gains in the year were £4K (2018: £4K).

(i) M & G Charifund investments

The College owns 3,982 M & G Charifund income units:	2019	2018
	£	£
Cost	4,999	4,999
Revaluation surplus brought forward	60,042	59,327
Revaluation movement in year	(1,483)	715
Market value at 31 July 2019	<u>63,588</u>	<u>65,041</u>

(ii) STIC Global investments

The College owns 116,973 (2018 = 116,212) £1 shares in STIC Global:	2019	2018
	£	£
Market value as at 31 July 2019	<u>116,973</u>	<u>116,212</u>

(iii) **Charities Official Investment Fund (COIF)**

The College owns shares in the Charities Official Investment Fund (COIF):

	Number of Shares	2019 £	2018 £
Cost of shares			
Martineau Memorial Fund	473	491	491
Emma Cons (Morley College) Memorial Fund	68	70	70
Sheddon Memorial Fund	1,844	1,961	1,961
Anstruther Sheepshanks Scholarship	365	379	379
Group Theatre (Morley College)	587	610	610
Total cost of shares	3,337	3,511	3,511
Cost of Capital Shares			
Martineau Memorial Fund		371	371
Emma Cons (Morley College) Memorial Fund		67	67
Sheddon Memorial Fund		1,242	1,242
Anstruther Sheepshanks Scholarship		379	379
Group Theatre (Morley College)		596	596
Total capital shares		2,655	2,655
Cost of Income Shares			
Martineau Memorial Fund		120	120
Emma Cons (Morley College) Memorial Fund		3	3
Sheddon Memorial Fund		719	719
Group Theatre (Morley College)		14	14
Total income shares		856	856
Cost		3,511	3,511
Revaluation surplus bought forward		47,561	44,496
Revaluation movement in the year (Note 19)		4,777	3,065
Market value as at 31 July 2019 as above		55,849	51,072

14 Trade and other receivables

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade receivables	40	43
Other debtors	372	317
Prepayments and accrued income	160	239
Total	572	599

15 Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Bank loans and overdrafts	33	33
Payments received in advance / deferred income	452	449
Trade payables	138	101
Other taxation and social security	258	166
Accruals	112	418
Other creditors	137	302
Amounts owed to the ESFA	-	25
Deferred Capital Grant (funding body)	60	58
	<hr/>	<hr/>
Total	1,190	1,552
	<hr/> <hr/>	<hr/> <hr/>
Deferred Income		
Deferred income at 1 August	449	530
Resources deferred in the year	452	449
Amount released from previous years	(449)	(530)
	<hr/>	<hr/>
Deferred income at 31 July	452	449
	<hr/> <hr/>	<hr/> <hr/>

16 Creditors: amounts falling due after one year

	2019	2018
	£'000	£'000
Bank loans	433	467
Deferred Capital Grant (funding body)	517	376
Retention on property strategy	-	40
Total	950	883
	<hr/> <hr/>	<hr/> <hr/>
Deferred Capital Grants	2019	2018
	£'000	£'000
At 1 August	434	193
Received in the year	238	290
Released to income and expenditure account	(95)	(49)
	<hr/>	<hr/>
At 31 July	577	434
	<hr/> <hr/>	<hr/> <hr/>

17 Maturity of debt

Bank loans and overdrafts

Bank loans and overdrafts are repayable as follows:

	2019	2018
	£	£
In one year or less	33,333	33,333
Between one and two years	33,333	33,333
Between two and five years	100,000	100,000
In five years or more	300,001	333,334
Total	466,667	500,000

Bank loans and overdrafts at 2 per cent above base rate repayable by instalments falling due between 1 August 2018 and 31 July 2033 totalling £500,000 are secured on a portion of the freehold land and buildings of the College (the Nancy Seear Building).

18 Cash and cash equivalents

	At 1 August 2018	Cash flows	Other changes	At 31 July 2019
	£'000	£'000	£'000	£'000
Cash and cash equivalents	1,577	(798)	-	779
Total	1,577	(798)	-	779

19 Funds

	As at 31 July 2018 £'000	Incoming Resources £'000	Resources Expended £'000	Other gains £'000	Transfers £'000	As at 31 July 2019 £'000
Restricted Funds						
Bursary and Investments	78	41	(33)	-	-	86
Special Projects	74	-	-	-	-	74
	152	41	(33)	-	-	160
Unrestricted Funds						
General Reserve	3,710	11,387	(11,612)	-	-	3,485
Revaluation Reserve	14,206	-	-	4	-	14,210
Development Reserve	433	-	-	-	-	433
Other Designated Funds:						
Bursary fund	52	-	-	-	-	52
Special Projects	18	-	-	-	-	18
Heritage Fund	6	-	-	-	-	6
Total Unrestricted Funds	18,425	11,387	(11,612)	4	-	18,204
Total Funds (excluding Pension Reserve)	18,577	11,428	(11,645)	4	-	18,364
Pension reserve	(5,587)	-	(757)	(440)	-	(6,784)
Total reserves excluding pension reserve	12,990	11,428	(12,402)	(436)	-	11,580

Previous year for comparison:

	As at 31 July 2017 £'000	Incoming Resources £'000	Resources Expended £'000	Other gains £'000	Transfers £'000	As at 31 July 2018 £'000
Restricted Funds						
Bursary and Investments	106	-	(28)	-	-	78
Special Projects	53	31	(10)	-	-	74
	159	31	(38)	-	-	152
Unrestricted Funds						
General Reserve	3,402	10,991	(10,985)	-	302	3,710
Revaluation Reserve	14,202	-	-	4	-	14,206
Development Reserve	735	-	-	-	(302)	433
Other Designated Funds:						
Bursary fund	47	5	-	-	-	52
Special Projects	18	-	-	-	-	18
Heritage Fund	6	-	-	-	-	6
Total Unrestricted Funds	18,410	10,996	(10,985)	4	-	18,425
Total Funds (excluding Pension Reserve)	18,569	11,027	(11,023)	4	-	18,577
Pension reserve	(6,210)	-	(699)	1,322	-	(5,587)
Total reserves excluding pension reserve	12,359	11,027	(11,722)	1,326	-	12,990

Restricted funds

Restricted funds are held for the specific purposes identified by the funding terms. During the year, income was received from two separate trusts and foundations for the purpose of funding bursaries and the terms were considered to meet the needs of the restricted funds. Income received amounted to £41k and expenditure against this income in year was £33k. The balance is shown as the movement in the restricted funds.

Unrestricted funds: Revaluation Reserve

The revaluation reserve smooths out the effects over time of changes in the value of the College's investment portfolio. Current practice is to increase or decrease the size of the reserve by the increase or decrease in the value of investments so that this movement does not impact the income and expenditure account. This reserve also includes the increase in the value of land on adoption of FRS102.

	2019 £'000	2018 £'000
At 1 August	14,206	14,202
Revaluations in the period (note 13)		
M & G Charifund investments	(1)	1
STIC Global investments	1	-
COIF Bursary and Prize Fund investments	4	3
	<u>14,210</u>	<u>14,206</u>
Total	<u>14,210</u>	<u>14,206</u>

Development Reserve

The Development Reserve is a designated fund that has been established to improve and extend the College's buildings, its environment and the facilities available for students in accordance with the College Property Strategy. The College's reserves policy is to retain a minimum level of general reserves (excluding losses or gains in respect of the pension scheme) equivalent to one term (four months) expenditure to cover the risks and uncertainties of operating its main business and continue building up the Development Reserve from annual operating surpluses. The Development Reserve was not adjusted within the year as a surplus was not achieved. As the general reserve has dropped below the one term threshold, future surpluses will be required to replenish this reserve first before any further transfers are made to the Development Fund.

COIF Bursary Fund

This unrestricted Bursary Fund was established to supplement the restricted bursary fund, and is held to provide support for learners to attend College whose financial circumstances otherwise preclude them from doing so. There were no movements on the fund within the year.

Special Projects Fund

The Special Projects Fund exists to help the College develop new initiatives, support innovation and pilot new work and performances that will strengthen the College's reputation and profile. There were no movements to this fund in year.

Heritage Fund

The Heritage Fund exists to maintain, promote and celebrate the College's history and heritage including the restoration, renovation and expansion of the College art collection. There were no movements to this fund in year.

20 Defined benefit obligations

The College's employees belong to two principal post-employment benefit plans: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the London Local Government Pension Scheme (LGPS) for non-teaching staff, which is managed by the London Pension Fund Authority. Both are multi-employer defined-benefit plans. The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest formal actuarial valuation of the TPS was 31 March 2016 and of the LGPS 31 March 2016.

Total pension cost for the year	2019	2018
	£'000	£'000
Teachers Pension Scheme: contributions paid	596	569
Local Government Pension Scheme:		
Contributions paid	273	262
FRS 102 (28) charge	600	524
Charge to the Statement of Comprehensive Income	873	786
Total pension cost for year within staff costs	1,469	1,355

Contributions amounting to £112k were payable to the schemes as at 31 July 2019 and are included in creditors (£112k in 2018).

Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme, governed by the Teachers' Pensions 2014. The TPS is an unfunded scheme and members contribute on a 'pay as you go' basis – these contributions along with those made by employers are credited to the Exchequer. The TPS is a multi-employer pension plan and there is insufficient information to account for the scheme as a defined benefit plan, so it is accounted for as a deferred contribution plan.

Valuation of the Teachers' Pension Scheme

The Government Actuary, using normal actuarial principles, conducts a formal actuarial review of the TPS in accordance with the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 published by HM Treasury. The aim of the review is to specify the level of future contributions. Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors. The latest actuarial valuation of the TPS was carried out as at 31 March 2016 and in accordance with the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 except it has been prepared following the Government's decision to pause the operation of the cost control mechanisms at the time when legal challenges were still pending.

The valuation report was published in April 2019. The key results of the valuation and subsequent consultation are:

- Total scheme liabilities for service (pensions currently payable and the estimated cost of future benefits) of £218 billion
- Value of notional assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) of £196 billion
- Notional past service deficit of £22 billion

- Discount rate is 2.4% in excess of CPI

As a result of the valuation, new employer contribution rates were set at 23.68% of pensionable pay from September 2019 onwards (compared to 16.48% during 2018/19.) DfE has agreed to pay a teachers' pension employer contribution grant to cover the additional costs during the 2019-20 academic year.

The employer's pension costs paid to TPS in the period amounted to £596,000 (2018: £569,000).

The TPS is a multi-employer pension plan and there is insufficient information to account for the scheme as a defined benefit plan so it is accounted for as a defined contribution plan.

Local Government Pension Scheme

The LGPS is a funded defined-benefit plan, with the assets held in separate funds administered by the London Pension Fund Authority. The total contribution made for the year ended 31 July 2019 was £419,000, of which employer's contributions totalled £273,000 and employees' contributions totalled £146,000. The agreed contribution rates for future years are 12.0% for employers and range from 5.5% to 7.5% cent for employees, depending on salary.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016 updated to 31 July 2019 by a qualified independent actuary.

	At 31 July 2019	At 31 July 2018
Rate of increase in salaries	3.85%	3.85%
Future pensions increases	2.35%	2.35%
Discount rate for scheme liabilities	2.10%	2.65%
Inflation assumption (CPI)	2.35%	2.35%
Commutation of pensions to lump sums	50%	50%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	At 31 July 2019 years	At 31 July 2018 years
<i>Retiring today</i>		
Males	20.30	21.30
Females	23.20	24.20
<i>Retiring in 20 years</i>		
Males	22.10	23.70
Females	25.10	26.40

The College's share of the assets in the plan at the balance sheet date were:

	Fair Value at 31 July 2019 £'000	Fair Value at 31 July 2018 £'000
Equities	5,779	5,733
Target Return Portfolio	2,694	2,093
Infrastructure	608	470
Property	966	726
Cash	559	434
Total fair value of plan	<u>10,606</u>	<u>9,456</u>
Actual return on plan assets	<u>945</u>	<u>535</u>

The amount included in the balance sheet in respect of the defined benefit pension plan is as follows:

	2019 £'000	2018 £'000
Fair value of plan assets	10,606	9,456
Present value of plan liabilities	(17,390)	(15,043)
Net pensions liability	<u>(6,784)</u>	<u>(5,587)</u>

Amounts recognised in the Statement of Comprehensive Income in respect of the plan are as follows:

	2019 £'000	2018 £'000
Amounts included in staff costs		
Current service cost	739	786
Past service cost	134	-
Total	<u>873</u>	<u>786</u>

	2019	2018
	£'000	£'000
Amounts included in investment income		
Net interest income	145	164
Administration expenses	12	11
	<u>157</u>	<u>175</u>

Amounts recognised in Other Comprehensive Income

Return on pension plan assets	692	296
Experience losses arising on defined benefit obligations	(4)	-
Changes in assumptions underlying the present value of plan liabilities	(1,128)	1,026
Amount recognised in Other Comprehensive Income	<u>(440)</u>	<u>1,322</u>

Movement in net defined benefit (liability)/asset during the year

	2019	2018
	£'000	£'000
(Deficit) in scheme at 1 August	(5,587)	(6,210)
Movement in year:		
Current service cost	(873)	(786)
Employer contributions	273	262
Administration expenses	(12)	(11)
Net interest on the defined liability	(145)	(164)
Actuarial gain or loss	(440)	1,322
Net defined benefit liability at 31 July	<u>(6,784)</u>	<u>(5,587)</u>

	2019	2018
	£'000	£'000
Changes in the present value of defined benefit obligations		
Defined benefit obligations at start of period	15,043	14,959
Current Service cost	739	786
Past Service cost	134	-
Interest cost	398	403
Contributions by Scheme participants	146	142
Experience gains and losses on defined benefit obligations	4	-
Changes in financial assumptions	1,128	(1,026)
Estimated benefits paid	(202)	(221)
Defined benefit obligations at end of period	<u>17,390</u>	<u>15,043</u>

Reconciliation of Assets

	2019	2018
	£'000	£'000
Fair value of plan assets at start of period	9,456	8,749
Interest on plan assets	253	239
Return on plan assets	692	296
Administration expenses	(12)	(11)
Employer contributions	273	262
Contributions by Scheme participants	146	142
Estimated benefits paid	(202)	(221)
Fair value of plan assets at end of period	10,606	9,456

21 Related party transactions

Due to the nature of the College's operations and the composition of the Governing Body being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Governing Body may have an interest. All transactions involving such organisations are conducted at arm's length and in accordance with the College's financial regulations and normal procurement procedures.

The total expenses paid to or on behalf of the Governors during the year was £320 (2018: £1,589). This represents travel and subsistence expenses and other out of pocket expenses incurred in attending Governor meetings in their official capacity.

No Governor has received any remuneration or waived payments from the College or its subsidiaries during the year (2018: None).

The College previously held a contract with Healthcare Learning Limited, a company of which Mr M Seriki, a governor of the College, is a director and chief executive and in which he has a significant shareholding. The contract, which had a maximum value of £26,980 for the funding period 2015/16 to 2017/18, was for delivery of ESFA Apprenticeship programmes. The contract is complete and there were no transactions during 2018/19 (2017/18: £867).

22 Lease obligations

At 31 July the College had total minimum lease payments under non-cancellable operating leases as follows:

	2019	2018
	£'000	£'000
Future minimum lease payments due		
Not later than one year	109	103
Later than one year and not later than five years	277	368
Later than five years	83	93
Total	469	564

23 Post Balance Sheet events

The College is planning to enter a business combination with Kensington and Chelsea College on 3 February 2020 with KCC combining into Morley College. The business combination is conditional upon the enlarged College receiving a funding package from DfE that supports the future financial viability of the North Kensington and Chelsea Centres.

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON REGULARITY TO THE GOVERNING BODY OF MORLEY COLLEGE LIMITED AND THE SECRETARY OF FOR EDUCATION ACTING THROUGH THE EDUCATION AND SKILLS FUNDING AGENCY

Conclusion

We have carried out an engagement, in accordance with the terms of our engagement letter dated 28 May 2019 and further to the requirements of the grant funding agreements and contracts with the Education and Skills Funding Agency ("ESFA"), to obtain limited assurance about whether the expenditure disbursed and income received by Morley College Limited ("the College") during the period 1 August 2018 to 31 July 2019 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

In the course of our work nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 August 2018 to 31 July 2019 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Basis for conclusion

The framework that has been applied is set out in the Post-16 Audit Code of Practice (the "ACoP") issued by the ESFA. In line with this framework, our work has specifically not considered income received from the main funding grants generated through the Individualised Learner Record (ILR) returns, for which the ESFA has other assurance arrangements in place.

We are independent of the Morley College Limited in accordance with the ethical requirements that are applicable to this engagement and we have fulfilled our ethical requirements in accordance with these requirements. We believe the assurance evidence we have obtained is sufficient to provide a basis for our conclusion

Responsibilities of Governing Body of Morley College Limited for regularity

The Governing Body of the Morley College Limited is responsible, under the grant funding agreements and contracts with the ESFA and the requirements of the Further & Higher Education Act 1992, subsequent legislation and related regulations and guidance, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. The Governing Body of Morley College Limited is also responsible for preparing the Governing Body's Statement of Regularity, Propriety and Compliance.

Reporting accountant's responsibilities for reporting on regularity

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the ACoP.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity. A limited assurance engagement is more limited in scope than a reasonable assurance engagement and the procedures performed vary in nature and timing from, and are less in extent than for a reasonable assurance engagement; consequently a limited assurance engagement does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 August 2018 to 31 July 2019 have not been applied to purposes intended by Parliament or that the financial transactions do not conform to the authorities which govern them.

Our work included identification and assessment of the design and operational effectiveness of the controls, policies and procedures that have been implemented to ensure compliance with the framework of authorities including the specific requirements of the grant funding agreements and contracts with the ESFA and high level financial control areas where we identified a material irregularity is likely to arise. We undertook detailed testing, on a sample basis, on the identified areas where a material irregularity is likely to arise where such areas are in respect of controls, policies and procedures that apply to classes of transactions.

This work was integrated with our audit of the financial statements of the College and evidence was also derived from the conduct of that audit to the extent it supports the regularity conclusion.

Use of our report

This report is made solely to the corporation of Morley College Limited and the Secretary of State for Education acting through the ESFA in accordance with the terms of our Engagement Letter. Our work has been undertaken so that we might state to the Governing Body of Morley College Limited and the Secretary of State for Education acting through the ESFA those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governing Body of Morley College Limited and the Secretary of State for Education acting through the ESFA for our work, for this report, or for the conclusion we have formed.

RSM UK Audit LLP

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31 January 2020